

Wealth *STYLES*

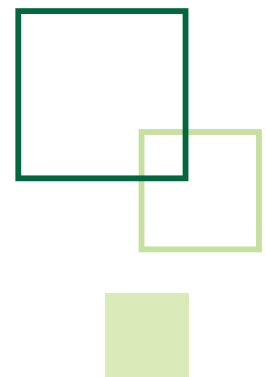
2017 Autumn Edition

Greater China Equity Strategy:
Adopting a New Mindset
for Stronger Returns



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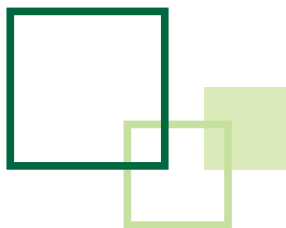
Editor's Note

China's economic data has been improving in recent months and capital continues to flow towards the Greater China markets. Stock markets in China, Hong Kong and Taiwan have, year-to-date, recorded double-digit growth. In this issue's **Cover Story**, Kai Kong Chay (KK), Senior Portfolio Manager for Greater China equities, Manulife Asset Management, provides analysis of drivers of future growth and latest investment opportunities in these markets.

The earlier one begins investing for retirement the better, but one should not stop investing on reaching retirement age. Manulife's survey shows that Asian investors are unaware that they can convert their accumulated wealth into monthly income after retirement. If you would like to know how to reinforce your income stream after retirement, check out this issue's **Wealth Tips**.

It is every parent's wish to help their children achieve their greatest potential. However, exorbitant tuition fees call for early planning. Don't miss this issue's **Financial Parenting**, which discusses how to set up an education fund.

If you have any wealth management-related questions, we would like to hear from you. Email us at WealthStyles_Asia@manulifeam.com.



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Planning for a Comfortable Retirement in Asia

“The International Monetary Fund (IMF) recently released findings¹ on the old-age dependency ratios in various markets. While Asia is trailing behind advanced economies such as Europe and the US, its speed of aging is still significant. The findings show the number of years it takes, in different regions, for the old-age dependency ratio to increase from 15 to 20 percent. While the transition takes 26 years and 50 years in Europe and the US respectively, the number is less than 10 years in Asian economies such as China, Japan, and Singapore.”

● Asia risks “growing old before becoming rich”

This rapid speed of aging has two implications; first, compared to other advanced economies, countries in Asia will have less time to develop effective policies targeted at an ageing society. Second, some countries in Asia are getting old before becoming rich. In other words, they are likely to face the double whammy of high fiscal costs of aging, coupled with low growth driven by demographic challenges.

● Strengthening retirement income security

Furthermore, when planning for retirement, the emphasis is usually on accumulation of wealth in the decades leading up to the golden years. However, **it is also equally important to focus on the decumulation phase, by carefully planning a strategy for generating a steady stream of income.**

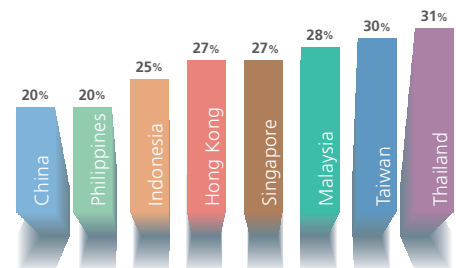
In a Manulife survey², Asian pre-retirees (aged 50 or above) expect only 20% - 31% of their retirement income sourcing from income generated investments or products³.

As people approach retirement, they have historically shifted their investments into bonds, not just to lower risk and preserve capital, but also to turn their accumulated wealth into retirement income. But besides bonds, investors can also consider developing a practical investment strategy in today's context, to strengthen their retirement income security.

This may include multi-asset solutions that generate consistent income from diverse sources including mutual funds, insurance products with dividend/income payout features as well as reverse mortgage.

By doing so, they not only achieve a steady flow of income from their assets, but also long-term capital gains – instead of only preserving their savings.

Expected proportion of income generated products in retirement income^{2,3}



In a Manulife survey², Asian pre-retirees (aged 50 or above) expect only **20% - 31%** of their retirement income sourcing from income generated investments or products³

Start early, invest wisely

The above has cast light on the need for Asian economies to act early and cope with the rapidly ageing population, or risk “getting old before becoming rich”.

But individuals also have a personal responsibility to take charge of their own retirement planning; the key to a comfortable retirement is starting early and investing wisely. After all, few retirees, if any, have looked back and wished they had been less diligent with their personal finances.

¹World Economic and Financial Surveys: “Regional and economic outlook (Asia and Pacific) – Preparing for chopping seas”. April 2017. ²Manulife Investor Sentiment Index Survey; fourth quarter 2016. ³Income generated investments include annuities, returns/recurring income from mutual fund, property or other investments, payout from reverse mortgage.

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Greater China Equity Strategy: Adopting A **New Mindset** for Stronger Returns

A portrait of Kai Kong Chay, a middle-aged man with dark hair, smiling. He is wearing a white long-sleeved button-down shirt and dark trousers. He is standing in front of a green living wall. The background is slightly blurred.

Kai Kong Chay

Senior Portfolio Manager,
Greater China Equities,
Manulife Asset Management

The stock markets in Greater China, which includes Mainland China, Hong Kong and Taiwan, have experienced much change over the past six years. The once state-driven Chinese stock market, for one, has undergone gradual transition to become more market-driven. The Shanghai, Shenzhen and Hong Kong markets used to operate independently but today, they are all closely interconnected. The Taiwan market, driven by technology stocks, has repeatedly been achieving breakthrough.

So, over the past six years, how drastic a change can a Greater China Equity portfolio undergo?

Since Kai Kong Chay (KK) took over as the Senior Portfolio Manager of Greater China Equities at Manulife Asset Management in 2011, he has not only made significant adjustments to the portfolio structure and investment strategies, but has also adopted a new mindset for stock selection. Over the past 6 years, the results across the three markets are widely recognised. KK's endeavors have propelled the performance of the China and Hong Kong equity portfolio he manages. Today, it shows brilliant results in terms of 5-year cumulative return. The Greater China equity portfolio also outperformed markets in terms of year-to-date return¹.

In the cover story of this issue of WealthStyles, KK shares the changes he has made to the portfolio over the past six years, as well as his latest outlook on the Greater China markets.

It is all about change. Looking back at KK's six year tenure as a fund manager at Manulife Asset Management, the most significant change he has implemented has been the alterations in the portfolio structure and investment strategy he uses for picking China and Hong Kong stocks.

KK recalls, "In the past, the portfolio held too many China and Hong Kong stocks. We have since cut down the number from over 100 to around 50 – 60 currently. We are now aiming for a higher alpha and more concentrated bets, by being overweight on high-conviction stocks or sectors."

KK has since initiated positions in American depository receipt (ADRs) for the first time, weightings of which have increased from 5%-6% initially to over 10% currently.



¹ Source: Manulife Asset Management, Morningstar, Bloomberg, data as of 30 September, 2017.



Strength in foresight

It goes without saying that portfolio restructuring requires strong vision and conviction to ensure success. Only through selecting stocks with great growth potential can a portfolio achieve its best performance. KK points out that the strategy has successfully captured the re-rating trends of green and healthcare stocks, as well as the rising trend of IT stocks in the last few years. He also admits that it would not have been possible for his team to discover these structural growth stories without the joint effort of the entire Greater China investment team.

In particular, KK notes that the Mainland team was able to capture investment opportunities arising from China-related stocks, by identifying emerging growth trends in sectors like electric cars and solar energy. "Thanks to our network of analysts, we were able to identify those themes more than six months ahead of the markets. Apart from the Mainland team, our Hong Kong, Taiwan and TEDA² teams have also carried out numerous on-the-ground researches."

Another of the Greater China equity team's unique strength: an investment team dedicated to Taiwan equities.

"For example, our Taiwan team has long been aware of the rising trends of technology stocks, including printed circuit assembly (PCA) and more recently, smartphones, and duo cameras." KK says.

Lateral thinking: a unique way of stock selection

KK believes that while it is important to identify the right investment theme, it is not necessary to pursue the most sought-after stories. Stock selection based on lateral thinking is equally effective. In other words, think a few steps ahead.

"For instance, the market was hotly debating the news surrounding production cuts by coal mines earlier. Although we were not the earliest investors of coal stocks, we jumped at the opportunity to invest in cement stocks, as we believed the industry had ample room for de-capacity. Decent sales of property developers meant more houses will be built, consuming more cement throughout the process. Following the flow of lateral thinking, we may not be buying real estate stocks directly, but would rather turn to cement stocks," explains KK.

Indeed, the ability to recognise market trends and seize opportunities ahead of others is a key source of achievement for many fund managers. KK recalls a time when he was travelling on a ferry. He overheard a passenger talking about a fund he manages. The stranger raved about his performance and that gave KK an enormous sense of satisfaction. "Being able to deliver strong results while helping clients grow their wealth is highly satisfying!" muses KK.

KK is fully confident of himself and his team. To illustrate, not only has he transferred all of his accrued retirement benefits to Manulife, he has also allocated all of his monthly contributions to his own fund.

Rally supported by earnings and dividend growth

The Greater China stock markets have recorded stellar performance year-to-date. In the first three quarters of 2017, Hang Seng Index has risen by 30%. The Taiwan stock exchange (TAIEX) has also hit its highest levels in over 20 years³. Given this scenario, it is inevitable for investors to turn cautious.

However, KK points out that compared to the rally in 2015, the current upturn is relatively healthy, as it is supported by favorable fundamentals such as earnings recovery and dividend growth.

KK explains, "China's economy is poised to benefit from the global recovery, and has begun to show clear signs of a turnaround. Corporate earnings have also been rebounding. EPS growth estimates for 2017 have jumped from 10% to 12% early in the year, to a lofty 18% currently, and are being revised upwards each month.

"As a matter of fact, earnings growth in the US has been revised down from 12% earlier this year to 10% at the moment. Furthermore, in China, apart from SOEs, many Chinese listed companies have increased dividend payouts.⁴"



² Manulife TEDA Co. Ltd is a joint venture between Manulife Financial (49%) and Northern International Trust (51%), part of Tianjin TEDA Investment Holding Co. Ltd.

³ Bloomberg, as of 30 September, 2017. Total return in index currencies.

⁴ Factset, IBES, MSCI, Worldscope, Goldman Sachs, as of 8 September, 2017.



Artificial intelligence crucial for upgrades and growth of IT stocks

Riding the waves of changes in lifestyles and consumption patterns, large-cap IT stocks in China have achieved significant earnings growth in recent years. Some names have attained growth by a couple times in terms of share price, garnering the market's spotlight.

KK believes that upgrades and growth of large-cap technology stocks could be further driven by artificial intelligence (AI) going forward.

"These days, client base is less of a key for IT companies. On the contrary, emphasis is on activity, number of daily active users (DAU), engagement time and data that can be extracted by AI to help drive advertising. AI is inside their DNA."

For example, 40% of clients of a large e-commerce platform operator in China browse the platform at least once every day, double the rate of its peers, which is valuable to advertisers.

KK explains, "The platform could expand its business to online finance, venturing into areas such as loans, credit card services and insurance. With significant competitive edges, these IT companies have the potential to grow exponentially. Even large companies are searching for electronic marketing platforms."

Likewise, another internet giant that provides cross-platform communication services has been depending on AI technology to achieve growth. KK believes there are two sources of growth: potential advertising revenue and targeted marketing.

He adds, "Using traits like gender and income as screening criteria, these platforms can recommend relevant products to potentially interested clients. While the user may not ultimately purchase the product, he may still pay some attention to or interact with the link. Users may actually welcome the recommendations, while advertisers can reach their target consumer base, thus creating a win-win situation.

"AI allows these IT companies to gain a unique edge over traditional media such as television, since the only user info that TV broadcasters can produce is viewership."

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The team members

From left to right

Neal Capecci

Portfolio Manager – Pan Asian bond strategies
18 years of investment experience

Murray Collis

Portfolio Manager for Pan Asian bond strategies and head of Singapore-based fixed income team
20 years of investment experience

Fiona Cheung

Head of Asian Credit Research
23 years of investment experience

Eric Lo

Portfolio Management Assistant – Pan Asian bond strategies
9 years of investment experience

Endre Pedersen

Fixed Income (Asia ex-Japan) Chief Investment Officer and lead portfolio manager – Pan Asian bond strategies 18 years of investment experience

Paula Chan

Portfolio Manager – Hong Kong and China bond strategies
19 years of investment experience

Eric Liu

Portfolio Manager – Hong Kong and China bond strategies
10 years of investment experience

Jimond Wong

Portfolio Manager – Pan Asian bond strategies
19 years of investment experience

Alvin Ong

Portfolio Manager – Singapore-based fixed income strategies
9 years of investment experience

Introducing Manulife Asset Management's Asian Fixed Income Team

Footprint

With over 50 investment professionals, including 19 credit analysts, in 10 territories across Asia, our Asian Fixed Income team relies on its extensive on-the-ground proprietary research capabilities to generate strong returns for our clients globally. This not only gives us an informational advantage over our competitors, it also enables us to provide our clients with unique perspectives when navigating the Asian fixed income markets.

Diverse Skillsets

Our team members come from various backgrounds and bring unique skills to our Asian Fixed Income platform. Our team combines experts in corporate credit, interest rates and currency markets, as well as experts in trading.

The Asian Fixed Income team is led by Singapore-based Chief Investment Officer (Asia ex-Japan) Endre Pedersen, who has been specialising in Asian bonds since the start of his career. He has been based in Singapore since 2005.

Interconnectivity

In addition to connecting our ten investment offices in Asia, the team engages our global bond teams to share Asian investment insights and understand global investors' risk sentiments towards emerging market investing.

The team leverages technology in order to connect key investment desks in London, Singapore and Hong Kong via 24/7 live video screens to ensure fluid communication, a culture of idea sharing and speed of trade execution for the benefit of our client portfolios.



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REITs: With relatively small investments, you can be a landlord too



Q Real estate prices are looking expensive in some Asia Pacific markets. Can I participate in the growth of the property market through other channels of investment?

A If you have ever played Monopoly, you would know that luck (dice rolls) is only part of the key to victory. In order to win, you also have to make strategic decisions, acquire land in prime locations and build houses for rental income.

In real life, with sky-high real estate prices in many markets, purchasing properties may be out of reach for some investors. However, by investing in real estate investment trust (REITs)¹ funds, investors can participate in the growth of property markets. Treasure-hunting in overseas property markets is therefore no longer a fantasy!

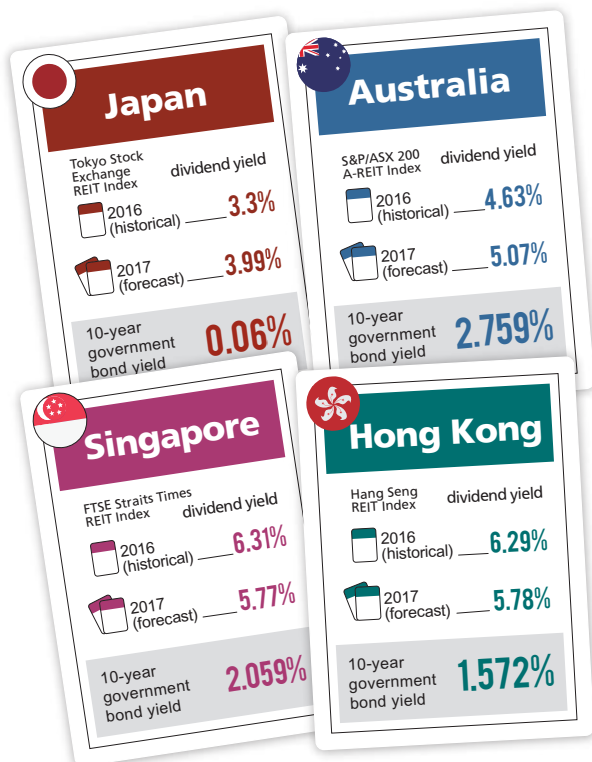


An attractive alternative form of property investment

REITs are lawfully established trusts. Assets held under a REIT comprise mostly of leased premises. Rental income, after deduction of expenses, is distributed almost in full to unitholders as dividends every year.

REITs investors may apply the Monopoly model in the capital market, which is to generate fixed cash income from commercial properties. Compared to typical property investments, REITs require less capital outlay, allowing you to become a "property owner" without facing the hassles of property management.

Yields of REITs and sovereign bonds²



Higher dividend yields than sovereign bonds

Under a persistently low interest rate regime, REITs provide a higher dividend yield than Asian sovereign bonds. As shown on the left, dividend yields of Asia-Pacific REITs averaged 5% in 2016, and this rate is expected to continue in 2017.

To illustrate the investment value of REITs, according to the MSCI AC Asia-Pacific REITs Index³, REITs recorded a total return of 13.53% in 2016 (in US dollar), outperforming Asia-Pacific and world stock indices for the sixth time in the last decade. As at the end of September 2017, dividend yields amounted to 4.46%, beating the two indices.³

Invest in a basket of REITs through retail funds for diversification

Notwithstanding the attractive yields, the performance of REITs may still be affected by the broad outlook of their respective markets and the inevitable unit price fluctuation. Assets of a single REIT may be overweight on certain regions, resulting in heightened concentration risk.

With all these in mind, investors should position themselves for the long term and pursue diversification by investing in a basket of REITs through retail funds. This way, the concentration risk in a single REIT or real estate market will be reduced.

For more wealth management related enquiries, please email



WealthStyles_Asia@manulifeam.com

¹Real Estate Investment Trust (REITs) ²Source: Bloomberg, data as of 17 October, 2017. ³Source: MSCI, as of 29 September, 2017.

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Following his parents' footsteps: A Career Out of Touching Clients' Lives

Ng Chuen Leong

Unit Trust Advisor
Manulife Asset Management
Services Berhad

At 18 - when many teenagers were still searching for their life goals - unit trust advisor Ng Chuen Leong gained his first four clients, who entrusted their wealth to a teenager who was just getting ready to enter the university. Today, he is one of the most outstanding advisors in Manulife Asset Management Services Berhad, **managing a 113 people's strong team.**

Dream big, work hard, stay focused and surround yourself with good people; this is Chuen Leong's recipe for success.

"The investment industry is a volatile one, and as advisors, we often face market fluctuations and regulatory changes. Against this environment, arm yourself with positive vibes daily so that you can stand strong despite the tides of change," quips the **32-year-old Double Diamond member of the elite Manulife Gems Club.** He got his career inspiration from his parents, who were both financial advisors.

He adds, "When I was as young as 12 years old, I would follow my father to meet his clients and listen to their conversations. In the process, I picked up the business of unit trust investments."

Chuen Leong strongly believes that every client deserves the highest level of personal attention, and that his work involves more than just managing someone's wealth. It is about building a successful partnership that is firmly grounded on trust, and a commitment to his clients' goals.

Through Chuen Leong, a client invested almost all his retirement savings with Manulife Asset Management. Thanks to a well-constructed unit trust portfolio that has been designed to meet his needs, the client has been enjoying consistent income for the past 12 years.

The client appreciated Chuen Leong's efforts, and has since referred over 100 clients to him.

"It is important to remember that clients are looking for a holistic solution to address their needs, rather than a tunnel-vision approach of simply selling unit trusts," enthuses the **multiple Manulife Annual Awards winner**, who has garnered **at least 75 awards**, since joining the company 10 years ago.

Chuen Leong points out two significant trends among his clients, 80 per cent of whom are Chinese. First, a significant proportion of their savings goes towards their children's education. Second, they value financial freedom as they do not want to burden their children upon retirement.

These observations have strengthened Chuen Leong's resolve to help as many people achieve their financial goals. This is especially important in Malaysia, which has one of the highest savings rates in Asia, of around 40 per cent.

"There is an urgent need for my team to reach a wider audience, and debunk the myth that cash is king, because inflation will erode the value of their cash savings over time. Clients need to explore other optimal avenues of growing their wealth," says Chuen Leong.

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How to Prepare an Education Fund ??

Investors usually choose to invest in funds due to a lack of investment knowledge and time, or the need to diversify risk. They turn to fund management companies for help. We assess a portfolio's suitability based on how well it meets an investor's objectives. For example, if a portfolio consists more of bonds and currencies, its risk and return will be relatively lower. Conversely, a portfolio with more stocks and futures will have greater risk and return.

When preparing an education fund, it is imperative to recognise your child's educational goals and expenses before investing. For instance, the annual tuition fee of universities in Hong Kong is approximately HK\$50,000 (around US\$6,400), though it can range anywhere between over HK\$200,000 to HK\$500,000 (around US\$30,000 to US\$64,000) for universities abroad. As the objective is to beat inflation and achieve capital gains, mid-to-high risk investments should be made, as the investment period can last up to 10 to 20 years.

Stocks usually have an 18-year cycle and short-term volatility risk can be smoothed out, making them suitable for long-term investments. Therefore, investors may consider choosing funds with high stock exposure (over 70%) portfolios. Low risk funds offer potential returns of only 3–4%, which may be lower than inflation in the long-term.

To construct a relatively resilient investment portfolio, investors may consider dividend-paying stocks or products, which can mitigate losses should markets fall. Although venture and small-cap stocks may have high returns, their companies have a higher chance of going out of business and are not suitable for long-term holding. This should be considered in the investment product selection process. In addition, those who know nothing about investments are advised to purchase funds through two to three different companies to diversify risk.

The earlier one saves and invests, the better. Assuming monthly contributions of HK\$5,000 (around US\$640) are made for 18 years starting from a child's birth, and an average annual return of 6%, the total sum (including principal) would be nearly HK\$2 million (around US\$256,000) by the time the child is 18 years old. If we consider inflation, the contribution amount should be increased. If contribution commences when the child is 10 years old, the accumulated amount would decrease by half, even if the rate of return was the same.



Edmond Lee

Previously an investment banker, Edmond is the co-founder and mentor of the 'Child and Adolescent Financial Education Fund'. He has hosted more than 70 financial parent related workshops and published numerous financial parenting books.



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