

Wealth *STYLES*

2017 Summer Edition

One of a kind

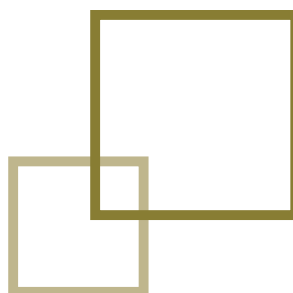
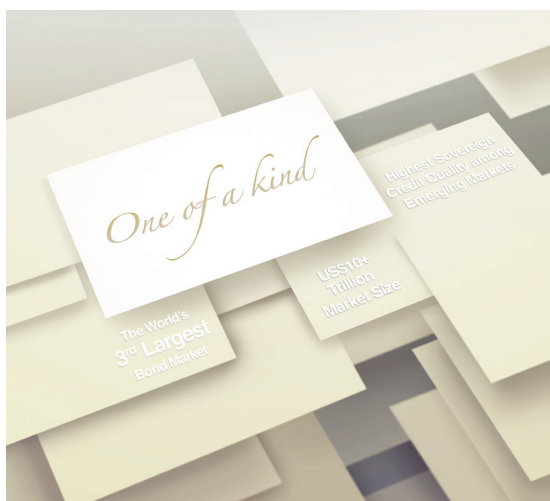
Highest Sovereign
Credit Quality among
Emerging Markets

US\$10+
Trillion
Market Size

The World's
3rd Largest
Bond Market

Asian Bonds

One of A Kind



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The US Federal Reserve has already raised rates twice in the first half of this year, while equities are, by and large, generating returns higher than bonds. In some regions, stock market indices have even recorded double-digit total returns. As US interest rates start heading north, which asset class should you focus on: the much sought-after stocks or quality bonds?

Increasingly, Asian bonds, which have been growing rapidly in recent years, have been observed to be the preferred choice for the relatively conservative and income-oriented affluent middle-class investors. But why are they so attractive? In this issue's **Cover Story**, Jimond Wong, Fixed Income Senior Portfolio Manager at Manulife Asset Management, shares with us the potential investment opportunities in this burgeoning asset class.

Despite the vast array of investment options available, some Hong Kongers are simply not interested in putting their money in any form of investment assets and are instead contented to hold cash. Unfortunately, what they may not realise is that inflation erodes the purchasing power of cash. This conundrum is analysed in our **Investors' Education** section.

Speaking of investment options, some investors have been exploring alternative avenues, such as buying foreign assets and even emigrating to another location. To learn more, don't miss our **Wealth Q&A** section.

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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3 Retirement Planning: different generations, 1 similar attitude

“When we think about retirement, we usually spend more time dreaming about what we will be doing, rather than plan how we will finance it. This is understandable; after all, the decision-making and financial sacrifices involved in retirement planning can be rather daunting.”

So, how are people planning to fund their retirement?

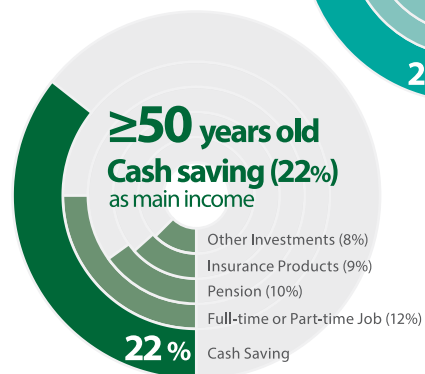
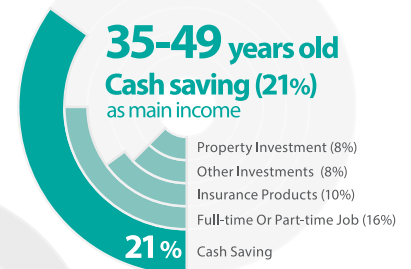
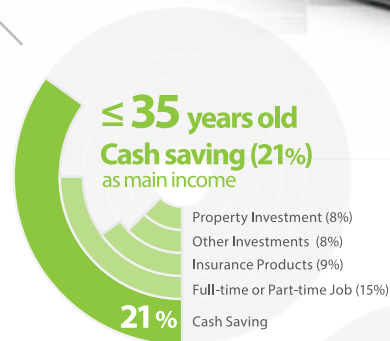
In a survey¹ seeking to understand retirement attitudes and financial habits, Manulife polled around 4,000 mass-affluent individuals – people at the highest end of the mass market in terms of income and savings – in eight parts of Asia. Three different generations were surveyed:

- ≤35 years old (millennials)
- 35–49 years old (middle-aged)
- ≥50 years old (pre-retirees)

One of the areas we focused is the expected composition of individuals' sources of income during retirement life.

The results may surprise some: all three age groups, on average, expected to fund their retirement primarily from savings/income in cash or bank deposits (see the accompanying graphs of top five expected retirement income sources).

This was much higher than the second-greatest source of retirement: a part-time/full-time job, as well as other sources of investment like mutual funds, other investments, and property investments.



The bias towards holding cash and the implications

The survey included emerging countries in Asia, where people often keep precautionary cash savings for education and healthcare expenses. The lack of a reliable pension system in many emerging countries may also contribute to a greater bias towards holding cash.

Furthermore, there are generational factors to consider. Those who grew up or started working during the global financial crisis may feel that holding cash is more prudent than staying invested.

Unfortunately, there is no silver bullet to help people change this biased attitude. One way may be better social service and pension services in emerging countries. Showing people how cash savings for property can be used more effectively in short to medium term investments is another.

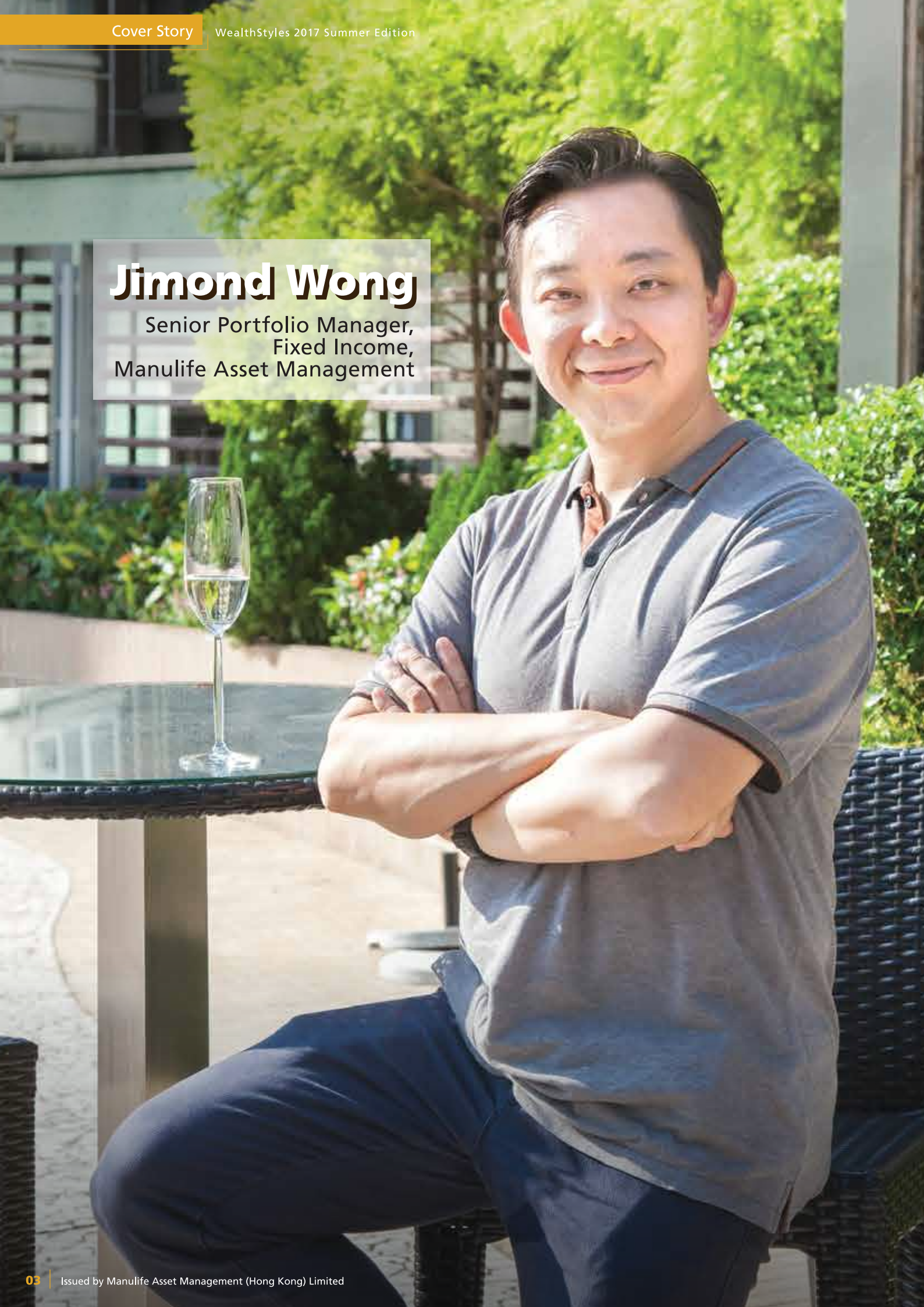
At the end of the day, every case is unique. This can only mean one thing: a smart individual plan that integrates retirement preparation into a series of life milestones is the most reliable way to plan for a fun and fulfilled retirement.

¹ Manulife Investor Sentiment Index, fourth quarter, 2016.

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Jimond Wong

Senior Portfolio Manager,
Fixed Income,
Manulife Asset Management



Asian Bonds One of A Kind

In this issue of WealthStyles, we feature a discussion with Jimond Wong, Senior Portfolio Manager, Fixed Income, Manulife Asset Management, who shares with us the unique features of Asian bonds, and the potential opportunities in this asset class. Jimond also shares some interesting nuggets from his early years in the industry.



Can you briefly tell us about the characteristics of the Asian bond market?



Retail investors may not be aware that the Asian bond market has been growing rapidly in recent years. Having crossed the US\$10 trillion mark, Asia is now home to the third largest bond market in the world, after the US and Japan.

To most global investors, Asia is still largely made up of emerging markets rather than developed markets. And yet, Asian bonds are clear standouts among emerging markets in terms of quality. Key Asian regions and countries have averaged a sovereign credit rating of "A-", which is four notches higher than non-Asian regions ("BB+")¹.

This is a reflection of Asia's relatively brighter economic outlook and stronger fundamentals, such as healthy fiscal reserves.



What are the main reasons behind bonds or bond funds being less popular than stocks in the retail market?



One of the key reasons is that retail investors lack experience in managing bond investments themselves, and hence less familiar with the asset class. Moreover, the minimum size of tradeable lots of dollar bonds can be as high as US\$100,000 or more, which poses a barrier for smaller investors to enter this market. Bond investments also involve more quantitative and complex calculations, such as mathematics and logical deduction. With a lack of intriguing stories, there are not many bond commentators to provide up-to-date market analyses. And given the profile of the asset class, it is not easy to make an attractive profit with small investments in the bond universe.

On top of all these, bonds issued by different companies often come with varying structures that are difficult for retail investors to understand. With limited exposure, investors are unlikely to grow fond of bonds as an asset class.



Compared to investing in a single bond, what are the advantages of bond funds?

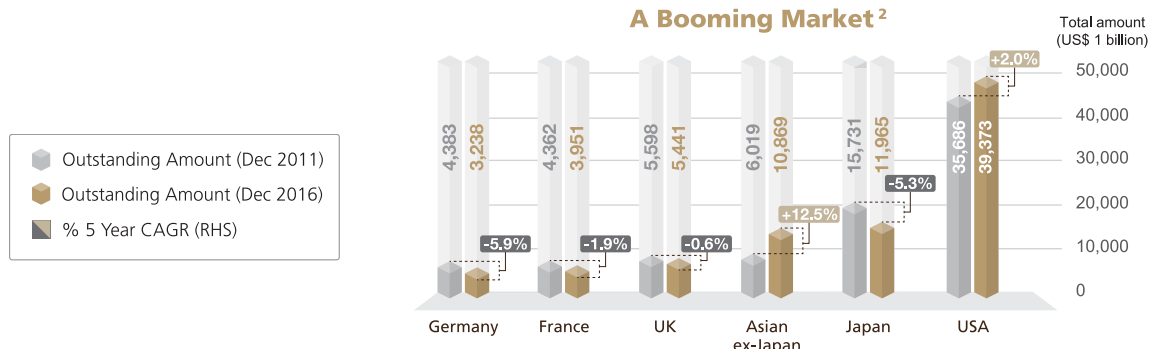


In contrast with retail investors, professional fund managers have a higher degree of familiarity and understanding of the macro economy, local currency trends and regulations. Moreover, even if retail bond investors want exposure to bond markets in countries like India, Indonesia and Korea, setting up an independent bond account in these countries is cumbersome. The minimum size of tradeable lots of at least US\$100,000 (dollar bonds) also makes diversification challenging for retail investors.

On the other hand, bond funds are suitable for all investment budgets due to the low entry threshold (as low as HK\$20,000), making them more convenient for investors to trade and book profit than individual bonds. The transaction cost of bid-offer spread is also lower than that of a single bond, and hence bond funds benefit from economies of scale.

Most importantly, bond funds offer risk diversification. In general, bond funds invest in at least 30 to 40 bonds, while typical investors hold three to four bonds, leaving them prone to over-concentration risk.

A Booming Market ²



¹ Bloomberg, referenced from JP Morgan EMBI Global Index, as of May 31, 2017.

² Asia Ex-Japan includes China. "CAGR" stands for Compound Annual Growth Rate. Source: Bank for International Settlements (BIS), Asian Development Bank, European Central Bank, Bloomberg. All amounts outstanding by residence of issuer. Manulife Asset Management, 31 December 2016

Q As the US begins its rate hike cycle, the secular bull market appears to be over. Do Asian bonds still have suitors?

A Indeed, the US Federal Reserve as well as central banks worldwide have drastically lowered rates since the financial crisis. Against a backdrop of rate cuts and improving credit quality, Asian bonds have yielded decent returns over the last decade. The 10-year return of USD-denominated Asian bonds has nearly doubled (89%), while local currency bonds have yielded almost 50% returns (48%), by no means inferior to the US bond index (55%) and Asian stocks (62%)³.

However, it would be unrealistic to expect Asian bonds to maintain such total returns in the next ten years.

Some investors are worried about the possibility of the return of US bonds or even Asian bonds being affected adversely by the Fed's rate hikes as bond prices typically decline when rates increase. However, data for the past decade reveal that yields of US Treasuries (referenced from the BofA Merrill Lynch US Treasury/Agency Index) and Asian bonds have low correlation with each other⁴. In contrast, domestic factors such as economic growth and an improving credit environment exert a greater influence on the return of Asian bonds. From this perspective, Asian bonds can offer investors the benefit of risk diversification.

Many investors have profited from the opportunities arising from the rapidly-growing Asian economies. And as growth stabilises, they would have already accumulated considerable wealth. Particularly for the middle class and high net worth individuals, the investment objective has changed from "appreciation" to "protection". Investors who have turned risk adverse are more inclined to allocate idle savings to bonds, which can offer returns of 3%-5% per annum over the short to mid-term (e.g. three to five years).

In other words, as a lower-risk form of investment, Asian bonds provide better return potential compared to low-interest bearing fixed deposits, which are yielding close to zero.



Q What is the outlook for the Asian bond market?

A With uncertainties lingering in global markets, and with the stock market making considerable gains this year, bonds may be more appealing to defensive investors.

While there are changes and risks in Asia, we continue to find income opportunities in China and the broader Asia region. We believe Moody's recent downgrade of China's sovereign credit rating will have negligible effect on markets, while the Bond Connect program is expected to aid stable development of Mainland China's bond market.

We remain constructive on Indian and Indonesian bonds, due to their higher yields and better growth potential.

Q What is the Bond Connect program? How will it affect Mainland China's bond market?

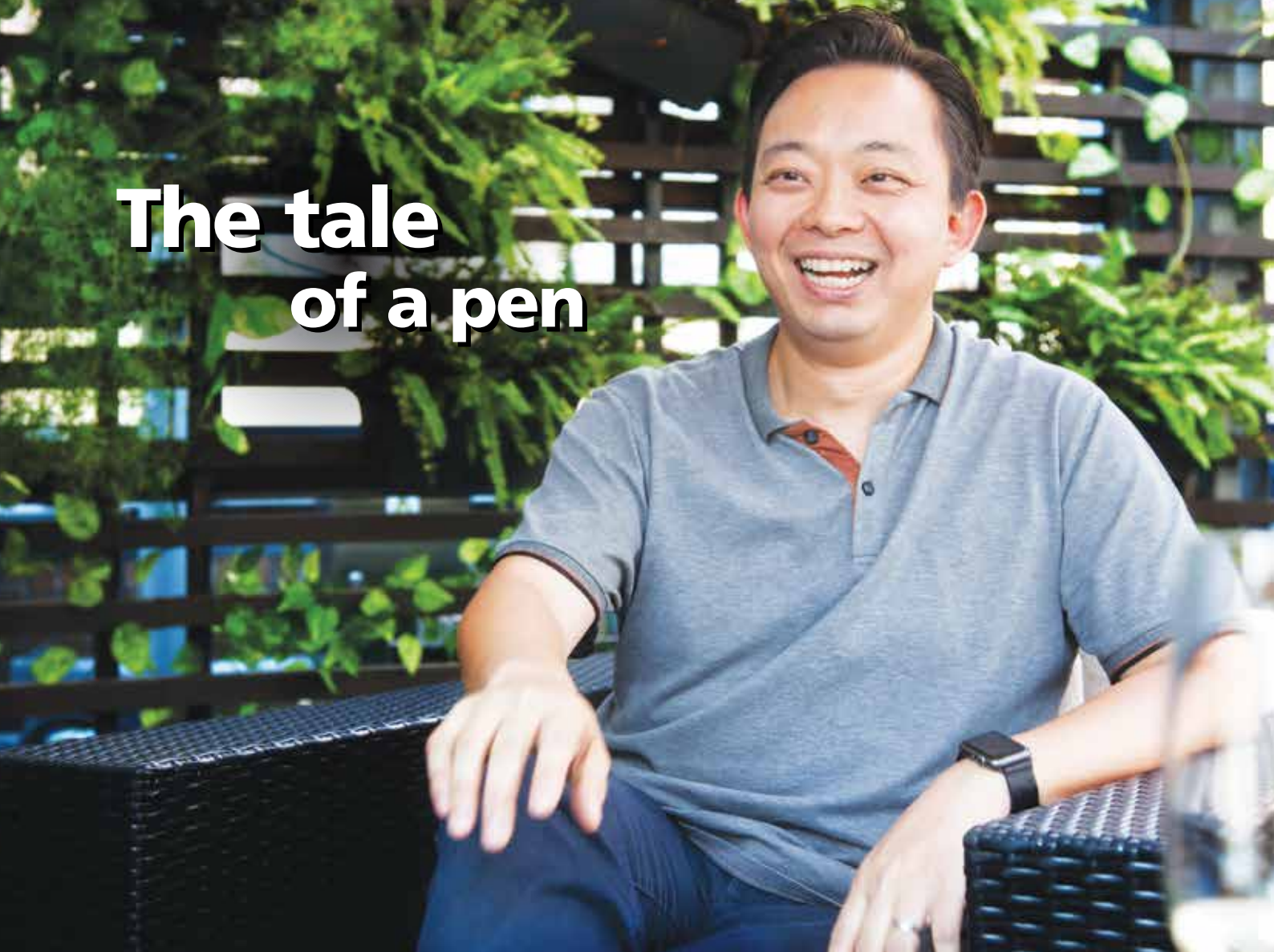
A China's bond market has low foreign ownership and can be volatile at times. In addition, the onerous application procedures for investing in on-shore bonds may discourage some international investors.

The Bond Connect program will allow international institutional investors (i.e. northbound) to invest in China's Inter-Bank Bond Market (CIBM) via a convenient market infrastructure linkage in Hong Kong. We envisage the program to improve transaction volumes, increase foreign participation and ultimately allow China to be included in global fixed income indices, leading to a potential capital inflow in passive demand.

³ Bloomberg, as of May 31, 2017. Asian USD bonds are based on the JP Morgan Asia Credit Index; Asian local currency bonds based on the HSBC and iBOXX Asia Local Bond Index; Asian equities based on MSCI Asia (ex-Japan) Index; US bonds based on Barclays US Aggregate Index.

⁴ Bloomberg, as of 30 June 2017

The tale of a pen



Jimond took gradual steps towards becoming a bond fund manager. He began his career in accounting as an auditor, constantly moving between the Mainland and Hong Kong for Initial Public Offerings (IPOs) and related transactions. He then joined an investment bank as a credit analyst, which had a profound influence on him.

Jimond describes himself as a credit analyst at heart, even while functioning as a portfolio manager today. This means he has maintained a bottom-up mindset and awareness for numbers, while thoroughly analysing the data and information of specific companies. On the other hand, portfolio managers value a top down mindset, which requires knowledge of economic and currency or interest rates analysis, as well as creating tailor-made solutions based on investment preferences of clients and the macro environment. "I believe when it comes to credit analysis, a bottom-up mindset can mitigate the risk of being out-of-sync with the market and companies," he says.



Jimond still finds his days as a credit analyst memorable. Over a decade ago, he visited an Indonesian company on-site, and was presented with a pen as a souvenir after the meeting. Up to this day, Jimond still uses it regularly. He says, "This company has already defaulted on its debts. Still, it acts as a reminder for me to treat each company with diligence and care, as the pen they give out may last longer than the company itself!"

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Investing abroad ?

Things to consider

Q I would like to learn more about Immigrant Investor Programmes across Asia. Can you tell me more?

A For those who are unable to emigrate via spousal or overseas family sponsorships, obtaining Investment Citizenship may be an avenue. The minimum investment requirements, eligible asset classes and investment periods of Immigrant Investor Programmes or related schemes vary greatly across the Asia Pacific region. One needs to pay special attention to regulations unique to each location. Here are a few areas to consider.

Is having the money to invest the only prerequisite?

The definition of investments in Immigrants Investor Programmes is usually very wide. While some locations allow applicants to invest in traditional asset classes such as funds, stocks and bonds, there are also locations that accept only "capital investments". For example, in markets like Taiwan, applicants must be business owners who will use the funds to start or run businesses, or buy stakes in local companies. As such, applicants who lack business operating experience may find it difficult to emigrate to these locations.

Will buying real estate and placing big bank deposits meet the investment requirement?

Even in locations where applicants are not required to run businesses, it is important to examine the regulations that define qualified asset classes. In particular, investments deemed unproductive to financial markets development (such as time deposits), or investments that have potential negative impact on the economy (such as real estate) may not be accepted as qualified investments, depending on the location.

Am I free to choose any location?

Other than the stipulated minimum investment amount, certain locations have other special requirements to ensure applicants have the ability to contribute to the society and integrate with local communities. For example, Australia requires applicants to obtain nomination from the Australian government or related organisations, while New Zealand requires applicants to have some proficiency in English.

Can I obtain citizenship without residing in the country?

Some locations such as Australia, New Zealand and Taiwan have a minimum period of residence. If an applicant is unable to reside in these countries for the stipulated amount of time due to family, career or other reasons, he or she may not be eligible for citizenship or right of abode.

For more wealth management related enquiries, please email

WealthStyles_Asia@manulifeam.com



Source: Government websites and immigration consultancy websites, June 2017. The above only contains partial investor programme information pertaining to the corresponding locations. Some locations do not have investment-based immigration systems—for these locations, only permanent residency can be obtained through investment.

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Professionalism Positivity

The Foundation of Comprehensive Service



Investment Fund Intermediary at Manulife Asset Management (Hong Kong) Ivy Ng

Ivy's son was born around the time when she joined Manulife. In a blink of an eye, he has turned 16. Over this period, Ivy's career has evolved from an insurance agent to an investment fund intermediary, in the process becoming a more adept wealth management consultant.

Every morning, she wakes up early to catch up on foreign financial news. "With this information in my head, I can start conversations with my clients easily when I meet them," she says.

A business administration major in university, Ivy has been passionate about investments since young. "I bought stocks for the first time 20 years ago," she recalls. "Stocks of a certain blue-chip UK-based bank cost only a few dollars a share at that time."

She believes in the importance of continuing education. "Investment fund intermediaries should treat their jobs with professionalism, and take continuing education seriously. Simply taking a few short courses is not enough," she comments.

Ultimately, knowledge and practical experience are both integral to investments. However, it is the latter that creates a lasting impression, and allows mere theories to become one's wisdom.

She remembers paying out of her own pocket for continuing

education after the financial crisis, which enabled her to wade through the world's complex economic, political and investment terrain in the wake of all the uncertainties. "At that moment, I realised markets were about to undergo profound changes, and I had to learn how to manage risk for clients. Being overly aggressive would have made them suffer, should sudden changes occur," she remarks.

Clients inevitably feel discouraged when markets decline. Ivy feels that as a strategist in charge of clients' financial planning, it is imperative to maintain a positive mindset on a personal level. "If a client's investment drops, the worst thing to do is to avoid contact," she explains. "Instead, call them, invite them for a meal and review the portfolio together. I will also share instances when my own investments have lost value, so as to make them feel relatable."

When asked about her key to success, Ivy's immediate response is her familiarity with all of the company's products, ranging from insurance-based to investment-related products.

"Success is not defined by earning the most commission, but by introducing the right product to clients," she adds.

She hopes her own set of values can inspire others and enthuses, "If I can motivate all my colleagues to apply for investment fund intermediary licences, then I will consider myself truly successful!"

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Making the Most

out of your child's study tours



Parents may be considering sending their precious ones on study tours. After all, as the saying goes, "He that travels far knows much". Indeed, such experiences can broaden children's horizons, and give them a taste of foreign life and culture. But when it comes to choosing study tours, parents should consider a variety of factors, including the family's financial circumstances. Above all, the capabilities and interests of their children should always come first.

My two sons joined a UK study tour when they were 14. When they returned, they were noticeably different. They were bolder and to my pleasant surprise, started embracing the joy of learning. They also shared stories of how they had developed friendships with other students from around the world, including regions such as the Middle East and Africa.

Study tours can vary greatly in terms of nature and cost. While most of these tours consist of sightseeing and excursions, they can differ in terms of disciplinary requirements and learning objectives. Depending on country and time of the year, the cost can range from approximately HKD 13,000 per week in Australia, to HKD 50,000 per month in the UK.

The following are some tips for parents to consider when choosing study tours for children:

1 PICK QUALITY OVER QUANTITY

Less is more. Parents should choose quality study tours primarily according to their children's capabilities and interests, instead of cramming the holidays with multiple tours. More activities may not necessarily be better. Visiting too many sights does not leave a lasting impression on children, while a hectic learning schedule may overwhelm them and backfire as a result.

2 EXPENSIVE OPTIONS MAY NOT ALWAYS BE THE BEST

An expensive study tour does not equate to a better learning experience. In fact, luxury study tours can over-pamper the children, and they may end up not learning much, making the tours less fruitful. The learning objectives of the study tour should therefore be key deciding factors.

3 LISTEN TO YOUR CHILDREN

While it is the parents who pay for the study tours, it is more important to listen to the needs of their children, and make the decision together as a family. I know of a couple who wanted their child to become an architect and chose a tour that involved visiting old buildings, churches and museums. However, the young child really wanted to join a football summer camp as he had completely no interest in architecture. The child ended up on the phone most of the time during the tour, crushing his parents' well intentions.

In sum, for study tours to be fun and purposeful, parents should fully consider the desires of their children in order to achieve meaningful results.



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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