Manulife Asset Management

# Wealth STYLES

2018 Autumn Edition

## Amidst the volatility some words of wisdom

# Content



# Editor's note

High US bond yields, trade wars, and the recent turbulence in emerging equity and currency markets have stirred up a storm in global financial markets, leaving investors no time to enjoy the pleasant season as they are engulfed in a sea of uncertainty.

Volatile markets are nothing new in recent years, with investors having experienced it to varying degrees. How should one develop their mental fortitude, keep personal bias at bay, and invest rationally? This issue's **Wealth Q&A** discusses investment strategies that can help you overcome bias.

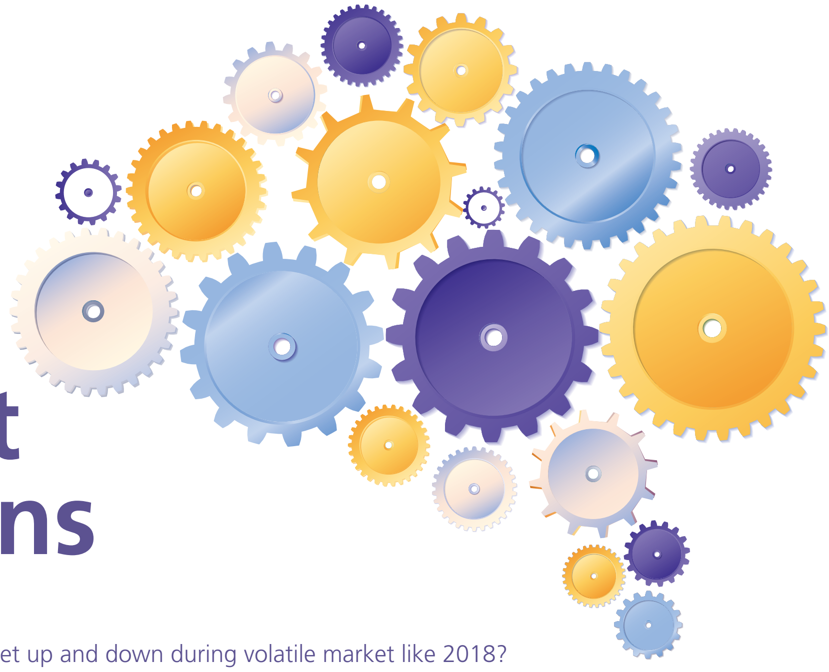
Another way to navigate this market environment is to learn from the experts. In this issue's **Cover Story**, readers will receive exclusive investment tips from Bruno Lee, Regional Head of Retail Wealth Distribution, Wealth and Asset Management, Asia, Manulife Asset Management. With years of experience under his belt, these tips are not to be missed.

Investment opportunities often arise during sentiment reversals or when markets are full of negative factors. If investors fear placing the wrong bet, they can consider funds with diversified investments managed by a team of professionals. Check out this issue's **About Us** to get to know Manulife Asset Management's Asian Equities team!

It is often said that rising rates increase lending costs and are detrimental to stock performance, but there are always exceptions. This issue's **What's new** analyses the outstanding performance of Asia-Pacific real estate investment trusts (REITs) during rate hike cycles, then compares its dividend yield and total returns with stocks and bonds.

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

# Let logic, not emotion, drive your investment decisions

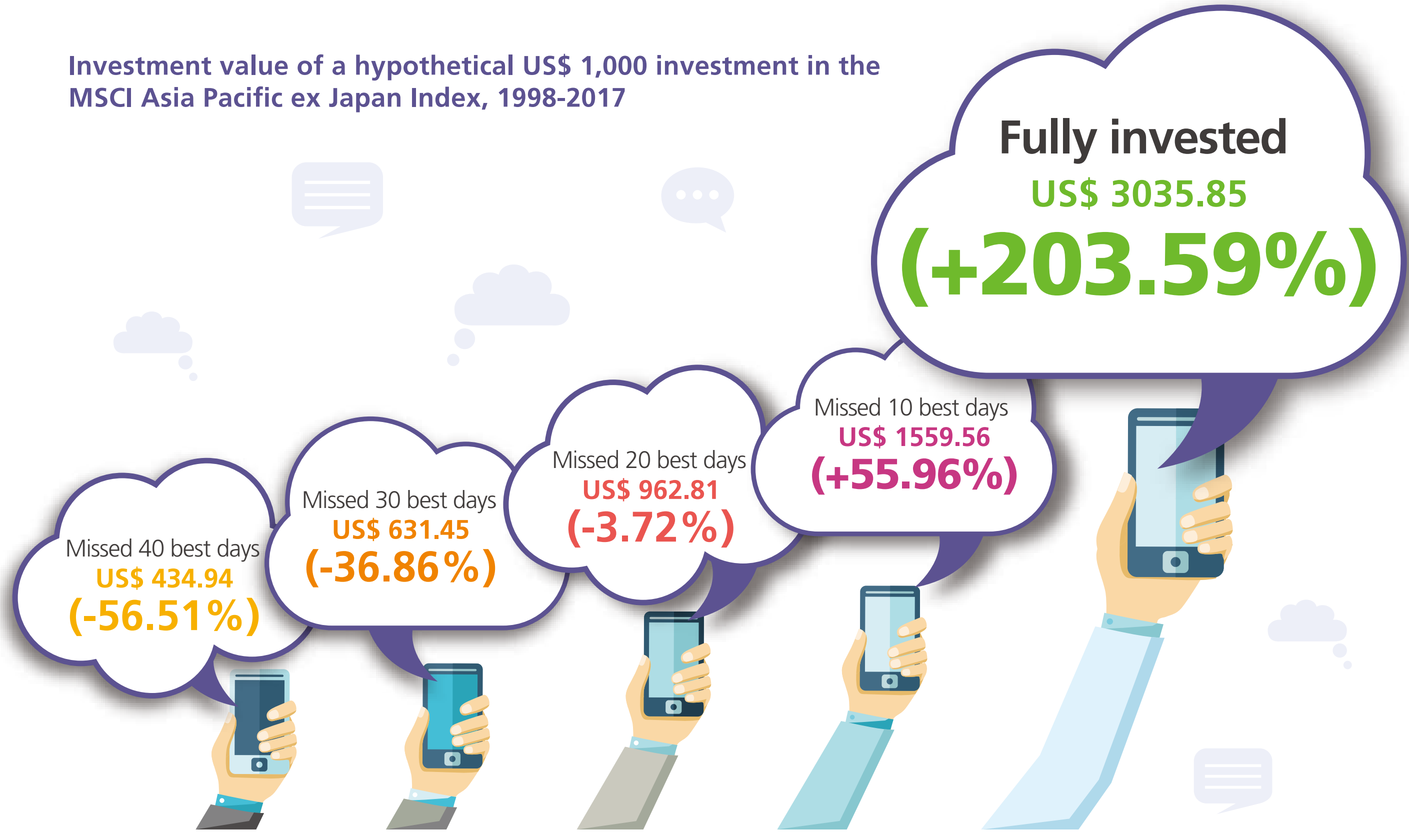


**Q:** Are there any tactics to capture the market up and down during volatile market like 2018?

**A:** Our emotions naturally make it difficult to make smart investment decisions like buying low and selling high. In reaction to stress, the reasoning part of our brain tends to shut down and survival instincts kick in. That's why many investors sell during market declines - thereby locking in losses - and return only after stocks have recovered.

These behavioral biases are a key reason why the average investor underperforms, as he tries to time the market. The more frequent an investor trading in and out, the higher chance he missed out the best performance days - resulting lower or even negative cumulative returns. That explains the value of staying fully invested

**Investment value of a hypothetical US$ 1,000 investment in the MSCI Asia Pacific ex Japan Index, 1998-2017**




Source: Bloomberg, as of 31 December 2017. Price returns in US dollar. The example mentioned is for illustrative purposes only. The information neither indicates any actual portfolio holdings nor constitutes any investment recommendation or advice. Different investments have different volatile pattern. Past performance is not an indicative of future performance. It is not possible to invest directly in an index.

[1]The Triune Brain in Evolution: Role in Paleocerebral Functions, Paul D. MacLean, 1990

# Four strategies to overcome your **natural biases** and **invest logically**

One reason that many investors fail to fully realize the market's investment potential is that the physiology of our brains might be working against our best interests as investors. Minimize the damaging effects that these tendencies have on long-term goals by watching for these warning signs and following a few simple principles.

### Loss aversion

The tendency to strongly prefer avoiding losses to acquiring gains

**Warning sign statements**

"I can't take any more of these losses, so I'm selling now."

**Potential strategies**

Expect ups and downs in the market. Involve impartial people in your decisions, since they are less likely to be clouded by emotion. Practice dollar cost averaging by making regular ongoing contributions toward your investment goal, regardless of how the market is performing.

### Anchoring

The tendency to rely too heavily on one trait or piece of information when making decisions

**Warning sign statements**

"I'm still down 10%. I just want to get back to where I started."

**Potential strategies**

Seek out information that will give you long-term perspective and help you change your anchor. Measure your success based on progress toward your goals.

### Status quo

The tendency to not change an established behavior unless the incentive to change is compelling

**Warning sign statements**

"I've had that investment for years, and it's been a good one. No need to change it now."

**Potential strategies**

Make an investment schedule and stick to it. Revisit the plan periodically to ensure that it still aligns with your long-term goals.

### Hindsight

Taking action based on past experience, but doing so after it's too late

**Warning sign statements**

"I don't care what happens next in the market. I'm moving to cash until things calm down."

**Potential strategies**

Base any reevaluations of your investment plan on a long-term perspective. Write a letter to yourself about the rationale for your long-term plan, seal it, and write on it, "Open in case of an emergency." If you get concerned about recent changes in the market, read the letter to help keep things in perspective.

Source: John Hancock Investment, May 2018

**For more wealth management related enquiries, please email**

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# Amidst the volatility, some words of wisdom

## Bruno Lee

Regional Head of Retail Wealth Distribution
Wealth and Asset Management, Asia
Manulife Asset Management

The Sino-US trade tensions and depreciating emerging market currencies are just some of the events that have put financial markets in turmoil since the beginning of the second quarter. The grit of investors is once again put to the test amidst unsettling sentiments.

WealthStyles speaks with Bruno Lee, Regional Head of Retail Wealth Distribution, Wealth and Asset Management, Asia, Manulife Asset Management. Before embarking on his wealth management career, Bruno had worked in the hotel and fashion design industries. His varied experiences have enabled him to take broad perspectives when addressing investors' worries.

Bruno shares some investment tips that may be useful in the current volatile markets:

**01 High rates do not mean high returns**

**02 Balanced allocation is crucial to learn**

**03 Planning ahead is the way to go**

**04 Ask a wealth management advisor he would know**

It all boils down to "rates".

In a relatively low-rate environment, it is common to see low or even negative real interest rates in Asia. Coupled with rising market volatility, many investors have taken a defensive stance on their portfolios, making income funds with regular distributions a popular choice, especially among the retirees and those approaching retirement.

## Total return is key to choosing distribution funds

While it is intuitive to focus on distribution yields when choosing distribution funds, Bruno reminds investors that this should not be the sole deciding factor. Other factors, such as the track record of average total return and credit quality of the portfolio, are equally important.

"Distributions constitute only part of fund investment returns. Capital appreciation (which is reflected in the fund's unit price) should also be considered when we look at the total return of investments," explains Bruno.

"In particular, investors should look at the historical maximum drawdown of the fund. The track record of the fund may reveal its potential maximum drawdown, and investors should consider if they can withstand losses of such magnitude."

Other than the distribution rates and changes in unit price, Bruno encourages investors to pay attention to the fund's actual holdings as they affect risk levels and the chance of getting potential returns. For example, a portfolio may include non-investment grade bonds, which offer higher yields, but are of lower quality compared to investment grade bonds. Should market conditions turn against them, there is higher risk of capital losses.

## Frequent trading ≠ active management

External market information also shapes investor attitude and behavior. In an age of information overload, investors are often bombarded with policy news, research reports and more importantly, market rumors. Persistent volatility and movements in market have led some investors to falsely believe that active portfolio management means frequent trading.

This approach is a fallacy. In contrast, when navigating volatile markets, investors should stay calm and remain rational when deciding on the most suitable investment strategy. [Related topics can be found in the **Agent Story** and **Wealth Q&A**]

The popular "core-satellite" investment approach is a good way to actively manage a portfolio, according to Bruno.

He says, "Portfolios are made up of a variety of assets. A majority of assets should be allocated towards long-term and steady core investments, which do not require frequent trading. The remaining assets can then be strategically and tactically allocated towards investments with higher risks and potential return, also known as satellite investments."

Yesterday: Hotel receptionist

Today: Wealth management expert

## Wealth management should be people-centric

Bruno's first job was a hotel receptionist. He believes this experience has been hugely beneficial to his current position in wealth management, as both roles are people-centric.

"The hotel and investment industries are both geared towards serving people in a personalised manner," says Bruno, who aptly points out that the value of wealth management advisory lies primarily in its bespoke and tailor-made services, including providing timely information that is relevant to clients' investment allocations.

### No frequent change in core assets with satellite investing

When choosing core investment products, Bruno tells investors to consider multi-asset funds. The bulk of assets of these funds are invested in fixed income or income-generating assets, such as high-dividend yielding stocks and derivatives, while the remaining assets consist of high-income investments with higher risk and volatility.

"A smart investor should never put all his eggs in one basket. In other words, investors should not concentrate their assets in one or two distribution funds," Bruno adds.

Recalling his days in the fashion industry, he sees certain similarities between fashion and investments. "There are always two trends: classic evergreen trends, such as jeans in fashion and multi-asset funds in investments, and the more "in vogue" trends which can come and go, such as PVC clothing and tech stocks. Investors should therefore always be on the lookout for evergreen gems, as well as the next big thing."

### Seek help from financial advisors

Some investors think wealth management is a personal affair, and are reluctant to seek professional help. However, a study in Canada shows that over a 15-year horizon, the accumulated returns of portfolios managed by financial advisors are more than quadruple those by non-advised portfolios.[1]

In Bruno's view, professional advice is particularly important as Asian investors face several challenges, including lack of time, as well as product and information overload. That's why professional advice is important.

"Wealth management is a profession that requires a lot of data-crunching. With the help of financial advisors, clients can gain a more objective perspective. Investors are less prone to making emotion-driven investment decisions when they receive professional market analysis backed by facts and data," says Bruno.

[1] Source: Cirano study: "The Gamma Factor and the Value of Financial Advice", 2014.

## Gifting knowledge to children

Over the last 20 years, although Bruno has spent the bulk of his time on investments and wealth management, he has not forgotten to give back to the society. Today, he manages a social enterprise – Project Curiosity - that strives to improve the lives of the less fortunate.

Founded in 2016, Project Curiosity works with schools and social welfare institutions to reach out to children and those living below the poverty line. Its anchor programme is to provide beneficiaries with access to computers in schools and community centers. As one of the sponsors, Manulife has been actively donating computer monitors to support the cause.

"Coming from a humble family who used to live in a public housing estate, I understand what it is like to live in less than ideal conditions. By providing the beneficiaries with computers, I hope to raise their digital literacy and inspire them to gain more knowledge from the internet – all of which will help to improve their standard of living in the long run," explains Bruno.

Project Curiosity

*left to right*
**Anthony Huang**, Taiwan Specialist; **Koushik Pal**, India Analyst; **Yifan Zhang**, Mainland China Analyst; **Doris Wang**, Hong Kong / China Analyst; **Wenlin Li**, Mainland China Analyst; **Marshall Li**, ASEAN Analyst; **Rana Gupta**, India Specialist; **Winson Fong**, Hong Kong Specialist; **Kenglin Tan**, Asian Specialist; **Kai Kong Chay**, Greater China Specialist; **Ronald Chan**, Chief Investment Officer, Equities, Asia ex-Japan; **Emily Lao**, Hong Kong / China Analyst; **Jan Wong**, Trader; **Marco Giubin**, Australia Specialist; **Andrew O**, Korea Specialist; **Chandler Chen**, Taiwan-based mid-cap Specialist; **Ivan Ho**, Chief Trader

# Introducing Manulife Asset Management's Asian Equities Team

## Extensive Asian Footprint

Our Asian Equities team consists of over 80 investment professionals across 10 markets. It is this extensive footprint that enables us to conduct valuable on-the-ground proprietary research, providing clients with unique and in-depth local insights.

## Consistent Investment Framework

By operating in 10 markets, we recognise that local differences may introduce diverging practices in the team. This is why we have put in place a standard Growth, Cash, Management and Valuation (GCMV) investment framework across the region.

Each research team follows a consistent framework when analysing specific stocks and companies. The result is that we speak the same investment language, allowing for strong synergy from the timely and efficient dissemination of information.

## Risk aware, but not risk averse

As our parent company is an insurance company, understanding risk is in our culture. We do not shy away from risk; we ensure that we are compensated for the risk that we take. Hence, we place strong emphasis on weighing potential rewards against the potential risks.

Our approach to risk management allows us to focus on delivering strong risk-adjusted returns for our clients.

## Ronald Chan

**Chief Investment Officer, Equities, Asia ex-Japan**

Based in Hong Kong, Ronald is chief investment officer for Asia ex-Japan equities and oversees Manulife Asset Management's equity teams across 10 countries and territories in Asia.

Ronald has 24 years of equity management experience, including 14 years overseeing equity teams in Asia. Under Ronald's leadership, our footprint and local on-the-ground resources allow us to offer both Pan-Asia and Greater China strategies, in addition to single country strategies managed by the local offices.

# Digital transformation

## Are you ready to change?

It is common knowledge that digitalisation has profound implications on workers and economies everywhere. But too few have taken steps to understand this phenomenon in practical terms. In the latest Manulife Investor Sentiment Index (MISI) survey, Manulife Asset Management examines how people across eight Asian markets perceive the shifting digital landscape and what this could mean for the workforce and financial planning.

## Emerging Asia markets are embracing the digital transformation more

The survey revealed that the emerging Southeast Asian markets and China are embracing digital transformation. Indonesia, Philippines and Thailand have the highest enthusiasm overall – over 90% of respondents feel that digitalisation brings new entrepreneurial and job opportunities. There is also wider knowledge of the automation threat across these markets, with at least 70% of interviewees aware that their jobs could be somewhat automated in the future.

**Perceived impacts of new digital technologies**

| Percentage of respondents who agree | INDONESIA | PHILIPPINES | THAILAND | CHINA | MALAYSIA | SINGAPORE | TAIWAN | HONG KONG |
|---|---|---|---|---|---|---|---|---|
| Helps you develop your own business | 94% | 92% | 90% | 79% | 78% | 67% | 55% | 49% |
| Creates new job opportunities for you | 93% | 92% | 92% | 81% | 80% | 61% | 55% | 50% |
| Your current job could be fully or partially automated in the future | 76% | 80% | 85% | 79% | 71% | 59% | 64% | 59% |
| Steal peoples' jobs | 65% | 53% | 73% | 68% | 62% | 53% | 53% | 54% |
| Consider yourself sufficiently skilled in the use of digital technologies to do your job | 89% | 85% | 83% | 81% | 69% | 57% | 52% | 47% |

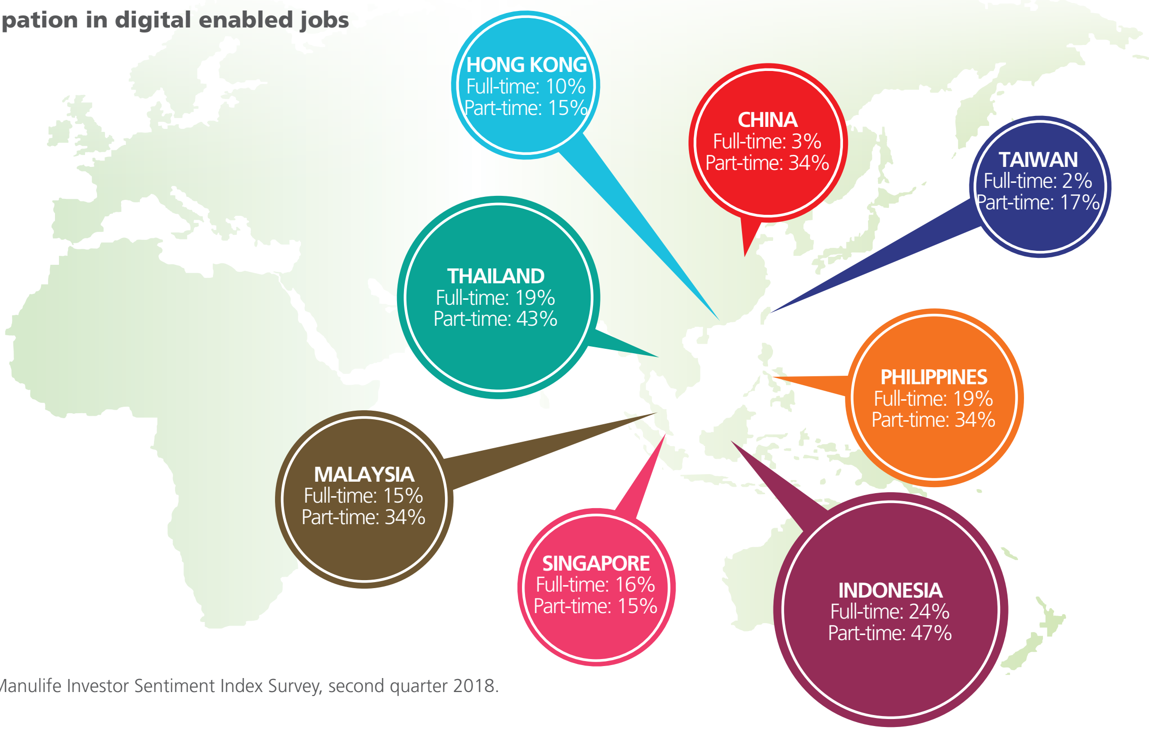
Source: Manulife Investor Sentiment Index Survey, second quarter 2018.

Comparatively, interviewees in mature market like Hong Kong, Singapore and Taiwan were less sensitive towards both the opportunities and threats brought by digitalisation in general.

## Digital Tech: A more integral part of the emerging Asia economy

The findings above reflect attitudes, but what about actual job participation? For the most part, findings show that they are closely intertwined – the higher the market optimism and awareness, the higher the participation rate in digitally-enabled jobs[1], with Indonesia having as high as 71% participation. Moreover, all markets saw higher part-time participation than full-time, which suggests that growing digitalisation could also lead to a more flexible workforce.

**Participation in digital enabled jobs**



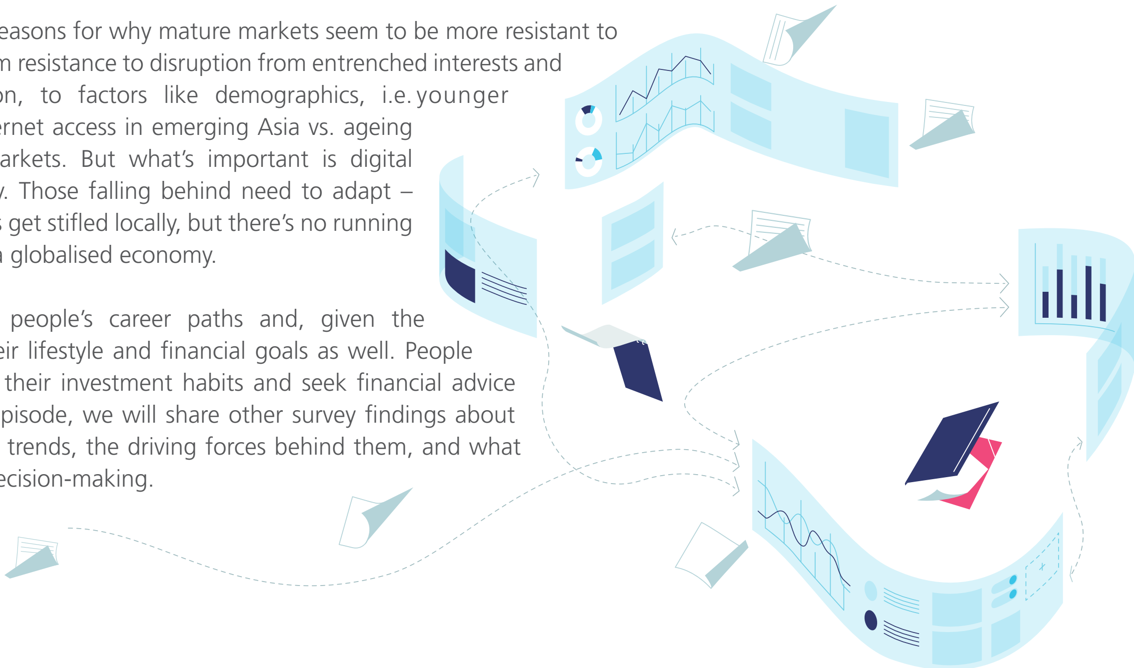

Source: Manulife Investor Sentiment Index Survey, second quarter 2018.

## What do these findings mean?

In the Asia Pacific, the findings suggest there could be a "negative correlation" between market maturity and sensitivity to digitalisation (job participation and awareness).

There are many possible reasons for why mature markets seem to be more resistant to digitalisation, ranging from resistance to disruption from entrenched interests and more stringent regulation, to factors like demographics, i.e. younger population with high internet access in emerging Asia vs. ageing population in mature markets. But what's important is digital innovation is here to stay. Those falling behind need to adapt – innovation can sometimes get stifled locally, but there's no running from your neighbours in a globalised economy.

Digitalisation will affect people's career paths and, given the part-time work trend, their lifestyle and financial goals as well. People will likely need to adjust their investment habits and seek financial advice accordingly. In the next episode, we will share other survey findings about the potential shifts in job trends, the driving forces behind them, and what this means for financial decision-making.



[1] Examples include transportation network, online retail, key opinion leader (KOL) and live streamer, excluding the internal employees of companies in the new digital industries.

# Delivering client value from collaboration

Nicola Wan's cup is always half full.

It was an ordinary Thursday when WealthStyles met with Nicola and her manager Stanley. The stock market was having a bumpy ride during the week. Meanwhile, the ongoing US-China trade disputes have been grabbing headlines, bringing considerable volatility to the global stock markets.

# Nicola, Sau-Yi Wan

## Volatility creates opportunities

Many investors have chosen to hold off under such an environment. However, Nicola is a firm believer that volatility and swings in the economic cycle spark client conversations and opportunities, which come in the form of new investment themes which emerge every now and then.

"During clients meetings, we can reassure them that we are closely monitoring the situation and have the latest information to share," said Nicola.

Since joining the firm last year, Nicola has been very active in Manulife's wealth and asset management business.

"Right from the beginning, I set clear expectations with clients on how I review their portfolios. My guideline is to contact the client whenever his or her portfolio goes up or down by 5% or more. To me, this personalised service is important as it helps customers understand and navigate the market volatility," said Nicola.

She believes that with hard work, half the battle is won. This explains why Nicola has been zealously learning about Manulife's wide-ranging offerings, including the wealth and asset management services.

"Clients, regardless of the size of their investible assets, like one-stop portfolio management services. If I am not able to provide advice in one area - say investment funds, the opportunity of managing the relationship may eventually slip away in favour of other providers or banks," explained Nicola on the importance of offering a one-stop service.

"Also, clients who may not have much to invest today may become big accounts in the future," she said.

## Teamwork Creates Opportunities

Against the backdrop of the ongoing trade war, Nicola recently helped a client reallocate his assets held in a bank, into Manulife. This idea was suggested by the wealth specialist team. The client appreciated Nicola's proactive approach, as he found it a refreshing contrast to his previous experience when the service provider never once contacted him even when his portfolio was making losses.

Nicola believes that proactive client servicing, along with strong support from her wealth management specialists, is what differentiates her from the pack. This is particularly important for the wealth management clients.

When Nicola meets her clients, she invites a wealth specialist to join her so that they can address the clients' needs together.

"This is Manulife's value-add to clients, whose needs are taken care of by experts in the respective fields. This way, clients are assured that they supported by a team and not just an individual. As an agent, my focus is on managing client relationships, while wealth specialists provide market intelligence to help clients make informed decisions," Nicola added.

## Risks Create Opportunities

It was a blessing in disguise when Nicola had to leave her previous sales job at one of the top banks in Hong Kong after her department was shut down. Attracted by Manulife's depth and breadth of service offerings, she joined the firm as she believes that the environment will give her room to build a team of her own in due course.

"I like the fact that Manulife gives the same level of attention to every client, and that no client is too small. This is what the financial services industry needs," enthused Nicola.

### She has an inspiring leader to thank

Nicola's team leader, Stanley, plays an important role in her career development at Manulife. He often encourages her to embrace different challenges as he believes that success starts with the willingness to try.

Stanley said, "I encourage my colleagues to explore new areas. Instead of viewing changes in trends as a problem, take it as a challenge and try to overcome it. If a case can be fixed by spending a few minutes online and making several clicks, why would clients come to seek our advice?"

To Stanley, learning is an endless journey. He will soon be taking the requisite examination for an investment fund intermediary license.

Nicola is definitely picking up all the positive traits from her mentor.

"There has never been a dull day at Manulife. I enjoy the abundant resources, support and exposure. There is just so much for me to learn and for me to offer my clients. In fact, I feel like a local student studying in an international school!" grinned Nicola.

# REITs: An alternative to acquiring real estate for rental income


When it comes to investments, many choose to buy real estate for rental income. However, other than real estate, is there any other investment that generates "rental income" in a similar way? The answer is yes, and they are called real estate investment trusts (REITs).

REITs are trusts that primarily invest in real estate assets such as shopping malls, office buildings, hotels, industrial buildings, and healthcare facilities. They provide investors with regular rental income. When one invests in a well-diversified mix of properties, REITs can capture growth opportunities in a timely manner, and enjoy the benefits of diversification.

## Investment opportunities during rate hike cycles

Typically, a rise in interest rates suggests the economy is moving in a positive direction and inflationary expectations are on the rise. As a result, rent and occupancy rates are also expected to rise accordingly. This signals the time to invest in REITs. During the previous interest rate hike cycle, as with the current cycle, the prices of Asia Pacific REITs increased (see Scenarios). This shows that during rate hike cycles, Asia Pacific REITs offer a unique opportunity for investors.

**Performance of Asia Pacific REITs during US interest rate hike cycles (cumulative return)**

**US Rate Hike Scenarios**

1) June 2004 - June 2006: **43.34%** #

2) December 2016 - August 2018: **34.58%** *

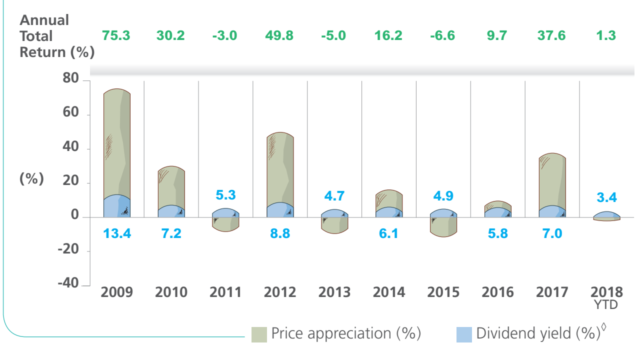
Source: Bloomberg, as of 31 August 2018. #Since the base data of S&P Pan Asia ex Japan, AU, NZ REIT (USD) Gross Total Return Index was 30 September 2008, the performance of 2004-2006 is represented by the S&P Asia Pacific REIT USD Total Return Index. The time of the above scenarios are of the two latest rate hike cycles and are for illustrative purposes only. *AP REITs represented by S&P Pan Asia ex Japan, AU, NZ REIT (USD) Gross Total Return Index.

## REITs: higher dividend yield with buffer

After collecting rental income, most REITs are required to distribute a minimum of 90% of income as dividend to investors. In general, the current dividend yield of Asia Pacific REITs exceeds 5%, which is higher than stock dividends and bond yields[1]. Asia Pacific REITs only recorded slightly negative total annual returns for three years out of nine. This demonstrates how REIT dividend yields can provide a buffer to mitigate losses, making REITs one of the alternatives to direct property investment.

**Return & Dividend Yield of Asia Pacific REITs**

Average Dividend Yield (2009-2017): **5.99%**




Source: Bloomberg, 31 August 2018, Asia Pacific REITs represented by the S&P Pan Asia ex Japan, AU, NZ REIT (USD) Gross Total Return Index. ◊Dividend yield calculated by deducting price appreciation from total returns.

[1] Source: Bloomberg, 30 June 2018.

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