

# Investing In Asia

1Q 2015



## Joohee An

Senior Portfolio Manager (Asia Pacific) of Mirae Asset Global Investments (Hong Kong) Limited explains there's more to the Asian consumer than just shopping.



## Asia: The Next Level of Consumption

### Standing Apart from the Crowd of Asian Asset Managers

Many Asian equity managers exploit the long-term structural potential of the Asian consumer. Demographics are good, the middle class is growing – and so too are expectations and demand for goods from staples to luxuries. Mirae Asset Global Investments has been a successful investor in this theme since 2006. Yet Joohee An, manager of the Mirae Asset Asia Great Consumer Equity Fund, believes a more flexible, nuanced investment approach is needed as Asia steps up to the next level of consumption. Her investment strategy goes beyond the traditional consumer sectors and has outperformed the benchmark MSCI AC Asia ex Japan Index since launch in 2011.

'Consumption is the main story in Asia, not export or investment anymore. But investors need to be more flexible to capture all the upside potential. There is more to Asian consumers than just shopping. When people go to hospital, they are spending money. When they buy a home, they are buying financial services. When they are using the internet, their smartphone and apps are all part of the consumption story,' says Joohee An.

### Asia Great Consumer Equity Fund Outperforms Since 2011

Source: Mirae Asset Global Investments



	1M (%)	3M (%)	YTD (%)	1Yr (%)	2Yr (%)	3Yr (%)	Since Launch (07 June 2011) (%)
Mirae Asset Asia Great Consumer Equity Fund (USD)	0.78	0.43	5.75	18.88	27.09	50.42	41.70
MSCI AC Asia ex Japan (Gross Return) Index USD	1.90	2.31	4.46	11.67	11.69	18.54	13.10
Excess Return	-1.12	-1.89	1.29	7.20	15.39	31.88	28.60

As of February 28, 2015

Wages and bonuses are important drivers, but so is security. Consumers also need to feel protected and certain about the future.

## Inclusive Consumption: Better Pay Plus Security to Support Consumer Confidence

Consumption is also merely a part of the economy, she thinks. As such, it cannot be isolated from the wider economic cycle, as Chinese data has shown. Investors who focus on pure consumer themes run the risk of losses if the macro environment and sentiment turn against them. Pure consumer themes can offer little protection on the downside.

The long-term development picture is clear, however. If countries want to lessen their dependence on the US and Europe, they need to do more than ensure wage growth is high. In areas of China and around Jakarta, wage growth is well into double digits, but that does not mean that consumer spending is always robust. Wages and bonuses are important drivers, but so is security. Consumers also need to feel protected and certain about the future. So the development of domestic economies also requires the creation of social services and healthcare. Such consumer-related sectors tend to be less susceptible to macro downturns, thinks Joohee An.

### Robust Minimum Wage Gains in Indonesia

Source: Statistics Indonesia (Badan Pusat Statistik) (2014)



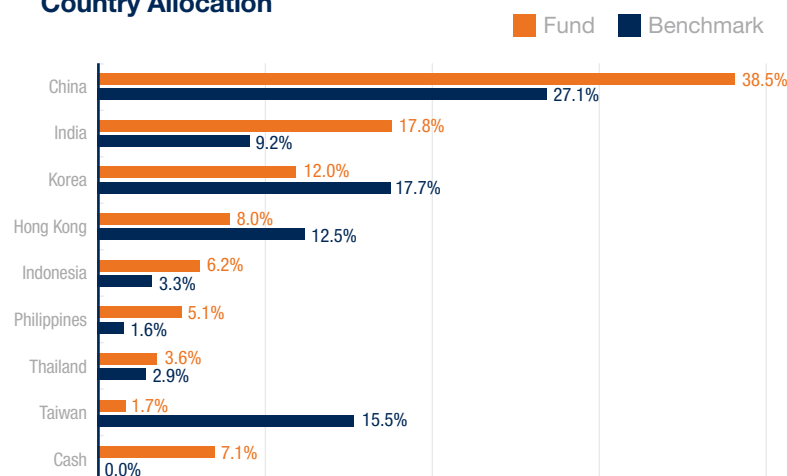
Wage growth has been solid in Indonesia, although out-of-pocket costs hover around 75% of total health expenditures. (Source: World Bank (2014))

That thinking ensures that consumer staples and discretionary make up only 40% of the Mirae Asset Asia Great Consumer Equity Fund. Healthcare is an important, fast-growing segment as part of the social security theme, with exposure of 25%. Innovation accounts for 20% of the portfolio, embracing the evolving e-commerce sphere and IT more generally. And while certain segments such as online shopping are changing fast, Joohee An aims to be a multi-year investor. Turnover is approximately 40%, with holding periods around the two to three year mark.

### Index Agnostic: High Conviction, Active Investing

Source: Mirae Asset Global Investments

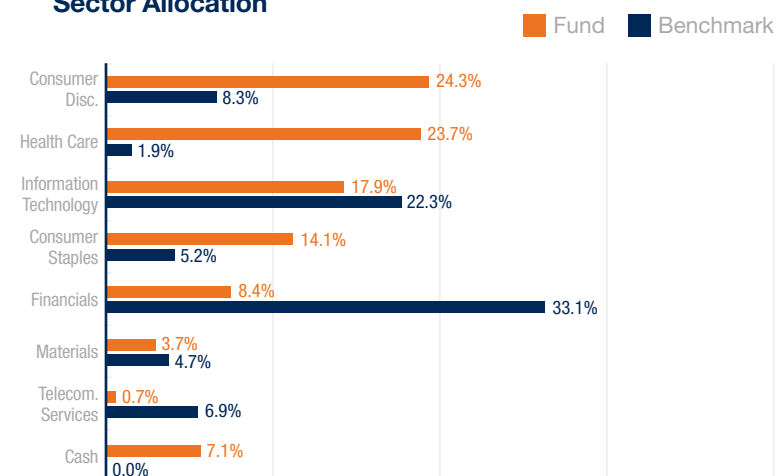
#### Country Allocation



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Note: Fund allocation may not sum to 100% due to rounding.

#### Sector Allocation



As of February 28, 2015

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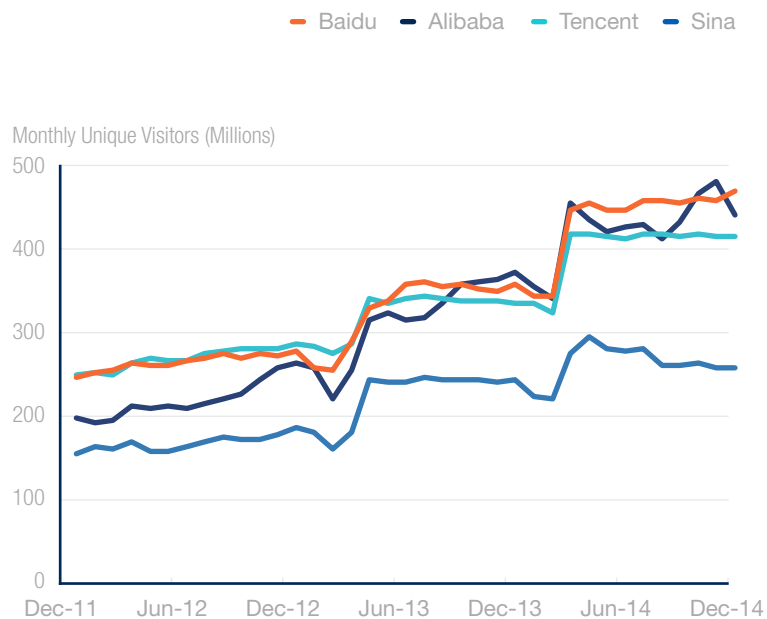
The application of the technology thematic drivers differ from market to market.

## Mobile Internet is Transforming the Consumer

'Technology is changing the Asian consumer. Chinese and Hong Kong e-commerce and internet were the biggest contributors last year,' says Joohee An. But as with other structural trends like demographics and urbanisation, the application of the technology thematic drivers differ from market to market. The top five most-visited websites in India are all Silicon Valley titans. Google, Facebook, YouTube and Yahoo dominate, grabbing market share early as their audience speaks English. China's internet ecosphere has developed differently as global titans have struggled with language, local tastes and regulation. Baidu and portfolio holding Tencent (through its QQ social network service) and Alibaba dominate. They are best placed to exploit the move to mobile and to monetize online gaming and other web-based services.

### Chinese Internet Dragons: Understanding Locals

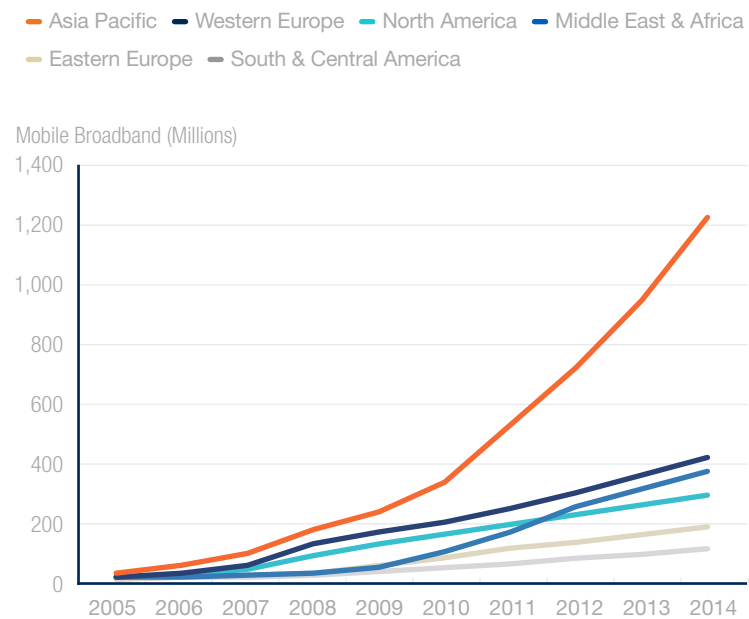
Source: Mirae Asset Global Investments, comScore (2014)



*Plug-and-Play: hundreds of millions have gone online in China for social networking and e-commerce, disrupting incumbents and traditional business models.*

### Drop the Cable: Leapfrogging to Exclusively Mobile

Source: Mirae Asset Global Investments, Ovum (2014)



*Asians are racing ahead in adopting mobile internet with far-reaching effects into purchase patterns and product preferences alike.*

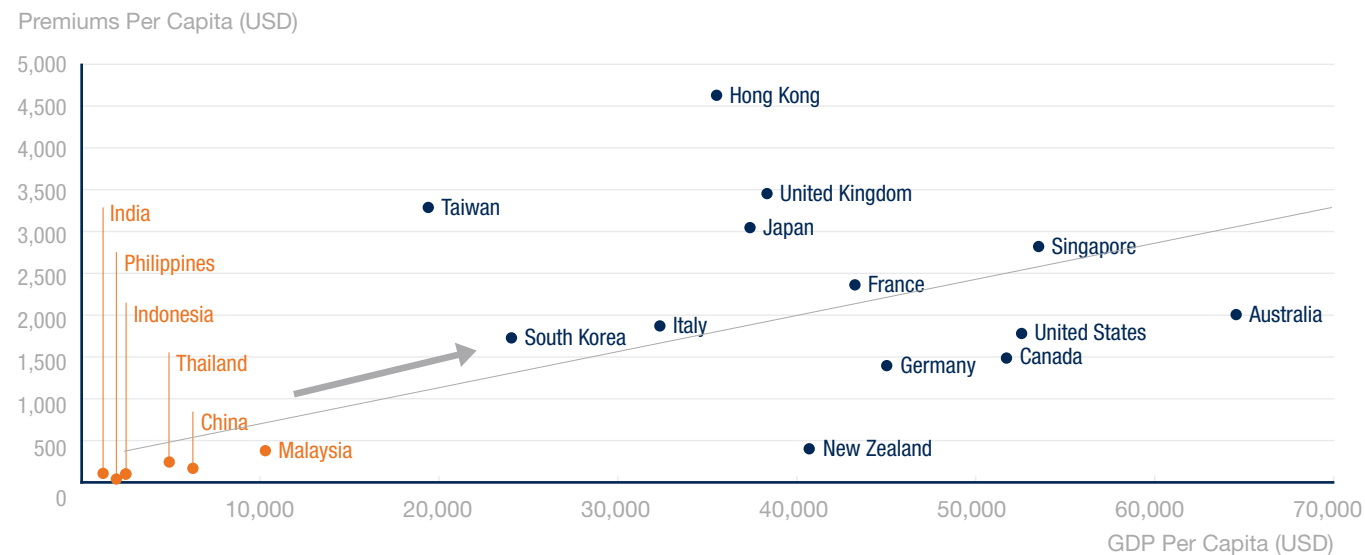
The department stores, shoe retailers, hypermarkets and apparel brands that dominated Joohee An's China early portfolio have given way to newer opportunities in tourism, hospitality, e-commerce and the internet.

## Riding the Wave to the Next Level of Consumption: North vs. South Asia

Northern Asian markets, including China, are moving up from necessities such as food and clothing to the next level of consumption. The 'need' growth trend is being surpassed by the 'want' in China, Taiwan and Hong Kong. The department stores, shoe retailers, hypermarkets and apparel brands that dominated Joohee An's China early portfolio have given way to newer opportunities in tourism, hospitality, e-commerce and the internet. Many South East Asia markets are not yet as fully developed, so consumer themes tend to be more basic. Themes in Thailand, Indonesia and the neighboring countries are focused on healthcare, property, telecoms and brand retailers.

## Life Insurance Premiums vs. GDP Per Capita: A Budding Industry for Pricing

Source: Swiss Re, IMF, World Economic Outlook Database (October 2014)

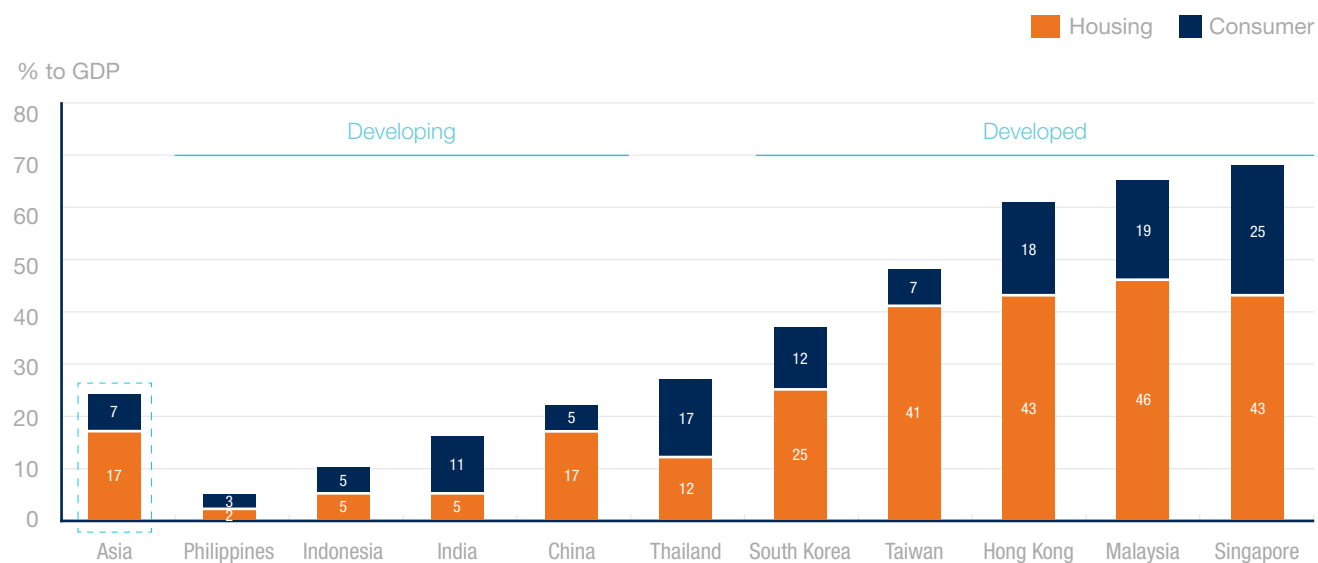


Rising incomes and a greying population present substantial opportunities for the life insurance industry in Asia.

Markets in South East Asia are under-penetrated. There are still good stocks to be found in the basics and necessities,' says Joohee An. Staples offer interesting opportunities in Indonesia, Philippines and Thailand, she adds.

### Housing and Consumer Loan to GDP Ratios: Room to Breathe

Source: Mirae Asset Global Investments, CEIC, Credit Suisse (2014)



*Retail credit growth in mortgage, auto, and personal loans is a quality multi-year play on the ambitions of the unleveraged Asian consumer.*

But North and South are similar when it comes to Joohee An's 'Local Tastes' theme. When it comes to favorite foods, local is always best. Indigenous, local players always have a big advantage over global food companies. They tend to have been in their respective markets for longer, know far more about their loyal customer bases, as well as having an inbuilt understanding of what actually tastes good to an Asian consumer. A good example is Universal Robina, a dominant Philippines snack and beverage firm. It is now spreading into neighboring countries as consumers develop a taste for noodles, chips and biscuits.

**‘Procter & Gamble, Unilever and Apple are doing well in Asia, but their markets are just small parts of the huge opportunities in Asia. In fact, greater opportunities are coming from other markets where local companies are faring far better than global brands. China already has its own version of Amazon, so why does it need another?’**

## Identifying Best Ideas for High-Quality Portfolio Composition

‘Not every firm can become a global leader, of course. It helps to have a strong view on local dynamics and the idiosyncrasies present in every market, before picking the best of the best. The Mirae Asset Asia Great Consumer Equity Fund is concentrated, typically containing around 30 names. Many stocks may seem unfamiliar to Western investors, but that need not add to the overall risk level in the fund,’ says Joohee An. The fund’s tracking error is near 11%, but she insists that is not an indication of unnecessary risk, especially for long-term, benchmark agnostic investors.

Joohee An would rather focus on Asia’s future leaders. She believes that paying close attention to management, corporate governance and long-term growth strategy minimizes the investment risk. Future leader opportunities are widespread, but not every firm will make it. In many countries and sectors, local players already dominate, making it difficult for multinationals or other players to grab market share. These local leaders are often on their way to becoming regional titans as US or European global giants struggle to make headway.

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Far better is to seek out local companies that have a strong grasp on local trends and needs. Joohee An points to Hotel Shilla, a Korean firm that runs luxury hotels and duty-free concessions. The company is expanding fast as the number of Chinese tourists visiting Korea accelerates, with these tourists now accounting for nearly 50% of company revenues, up from just 16% in 2010.

As such, it is far less susceptible to the negative macro headwinds hitting other Korean stocks. And as just 5% of China’s population currently have passports, the growth potential for Hotel Shilla and other firms targeting the Chinese tourist is a multi-year phenomenon.

### Steady Growth of Korea-Inbound Tourists Buoyed by Chinese

Source: Korea Tourism Organization, Mirae Asset Global Investments (2014)



Chinese tourists are flocking to Korea as China GDP per capita approaches the USD 8,000 watermark.

High conviction stock ideas have a sustainable competitive advantage, strong earnings and cash flow growth. On the qualitative side, management quality is important, as is the strength of each business model and franchise as the consumer market is changing so rapidly.

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## Research-Driven, Bottom-Up Investment Process for Secular Alpha Generation

Finding such strong investment candidates requires an intricate knowledge of the Asian markets. Joohee An can call on the expertise of ten sector analysts and four fellow portfolio managers in Hong Kong alone, as well as Mirae Asset Global Investments' investment professionals in other local offices throughout Asia, including Shanghai, Taipei, Seoul, and Mumbai. Two dedicated quant analysts start the investment process by screening the 10,000+ Asian equity stock universe down to a manageable 800-1,000 range. The qualitative sector specialists then take over, conducting in-depth research with firms, their competitors and suppliers. High conviction stock ideas have a sustainable competitive advantage, strong earnings and cash flow growth. On the qualitative side, management quality is important, as is the strength of each business model and franchise as the consumer market is changing so rapidly.

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The rapid change is demonstrated by the composition of the portfolio, with a strong focus on consumer discretionary. The strongest contributors since the fund's launch in 2011 include Galaxy Entertainment, Bangkok Dusit Medical Services. Universal Robina, Hotel Shilla and Tencent – most remain overweight positions in the fund today.

### Top 10 Holdings of Mirae Asset Asia Great Consumer Equity Fund

Source: Mirae Asset Global Investments

Holdings	Country	Sector	Fund (%)	Benchmark (%)
<b>Tencent Holdings Ltd.</b>	China	Information Technology	6.03	2.78
<b>Universal Robina Corp.</b>		Consumer Staples	5.08	0.13
<b>Alibaba Group Holding Ltd. Sponsored ADR</b>	China	Information Technology	4.62	--
<b>Amorepacific Corp.</b>	Korea	Consumer Staples	4.45	0.26
<b>AIA Group Limited</b>	Hong Kong	Financials	4.44	2.18
<b>Ping An Insurance (Group) Company of China, Ltd.</b>	China	Financials	4.01	0.89
<b>Hotel Shilla Co., Ltd</b>	Korea	Consumer Disc.	3.96	0.09
<b>Kalbe Farma</b>		Health Care	3.95	0.09
<b>JD.com, Inc. Sponsored ADR</b>	China	Consumer Disc.	3.76	--

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