

INVESTING IN ASIA

1Q 2015



Rahul Chadha

Co-Chief Investment Officer of Mirae Asset Global Investments (Hong Kong) Limited, explains what makes two of Asia's most successful equity strategies

MIRAE ASSET
Building on principles

Quality Local Brands at Reasonable Valuations

Can you elaborate on the investment approach and value proposition of Mirae Asset Global Investments in Asia?

Every active equity fund manager likes to buy quality stocks. Unfortunately they often buy at the wrong price, leading to underwhelming performance. The Asia equity team that I lead always focuses on finding the best companies, the best compounding machines and the best price.

You need a strong on-the-ground presence if you want to be a strong bottom-up stock picker in Asia. We have teams in Hong Kong, India, China, Korea and Taiwan who identify trends early. We seek established or emerging sector leaders at the right price, although market leadership is not the only characteristic that we seek. Firms must care about minority shareholders and demonstrate quality management attributes. High barriers to entry are important too. Our team would rather buy stocks in a 6% growth economy with high barriers than one with a 9% growth but a greater possibility of losing market share.

Each potential holding is rated by a "Competitive Scorecard," which is Mirae Asset Global Investments' proprietary measure of shifting market dynamics, as well as the company's track record and sustainability of returns. Stocks must be top quartile performers to make it through to selection. Our analysis is deliberately tight and stock-specific.

How do you take into consideration macroeconomic conditions in your investment process?

Macro is just noise 80% of the time. Only when there is a step-change do we take top-down economic factors into approach. Last year's currency movements, the recent downgrades of Indonesia's prospects and India's changing monetary policy were all chances to buy good companies cheaply. But the majority of the time, we are company specific.

Macro is just noise 80% of the time.

Our relentless focus on quality and price pays off.

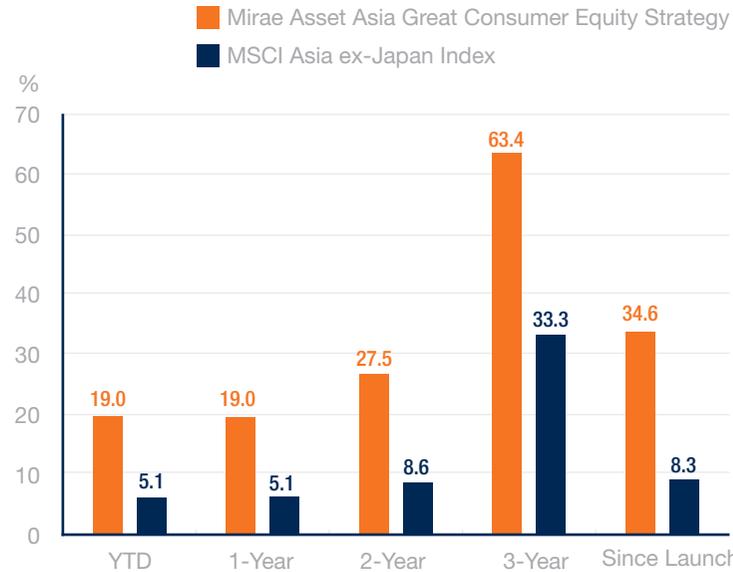
Can you tell us about company visits in the region and how they have benefited the strategies?

We are committed to research, which involves more than 1,500 company visits per year. Our relentless focus on quality and price pays off. The Mirae Asset Asia Sector Leader (“ASL”) Equity Strategy has been in the top decile in the Asia ex Japan sector since its launch on May 2012, delivering a total return of 53.3% against the MSCI AC Asia ex Japan Index’s 30.5%. The Mirae Asset Asia Great Consumer (“AGC”) Equity Strategy has delivered returns of 34.6% since launch in June 2011, more than triple the MSCI AC Asia ex Japan Index.¹

Asia Sector Leader Equity Performance (SICAV)



Asia Great Consumer Equity Performance (SICAV)



While the ASL strategy and AGC strategy both represent Mirae Asset Global Investments’ flagship offerings, they differ in their respective investment strategy. The ASL strategy focuses on “sector leading” companies, aiming to identify early winners in industries that are likely to benefit from the broad growth across the emerging markets spectrum. The strategy aims to identify firms that are reaching an inflection point in their growth trend, which will likely result in a near to medium term re-rating. The AGC strategy is likewise built around consumption strategies, but is differentiated by looking at niche and underpenetrated sectors that will benefit from the growing Asian consumer class over time, such as tourism, gaming, snacking and internet technology trends.

¹ Source: Mirae Asset Global Investments, as of December 31, 2014



Beyond favorable performance, are there any other similarities between the Mirae Asset Asia Sector Leader Equity Strategy and Mirae Asset Asia Great Consumer Equity Strategy?

Indeed, the two strategies certainly share other common characteristics. There is a capitalization sweet spot for strong business and stock performance for Asian equities. Firms that are US\$3 to US\$5 billion in size, or up to US\$50 billion in China, are resilient to tough conditions yet remain relatively undiscovered. Any firm over that size will already be on investors’ radar, leaving fewer opportunities to exploit.

These larger stocks have been around for a while. Our research has revealed that consumers prefer their local brands. And these lesser-known brands are responsive too. They are early to spot trends, to develop them and to move into new territories.

Beyond market caps, both strategies also share a common set of structural themes to capture the long-term changes taking place across Asia as the region grows and develops.

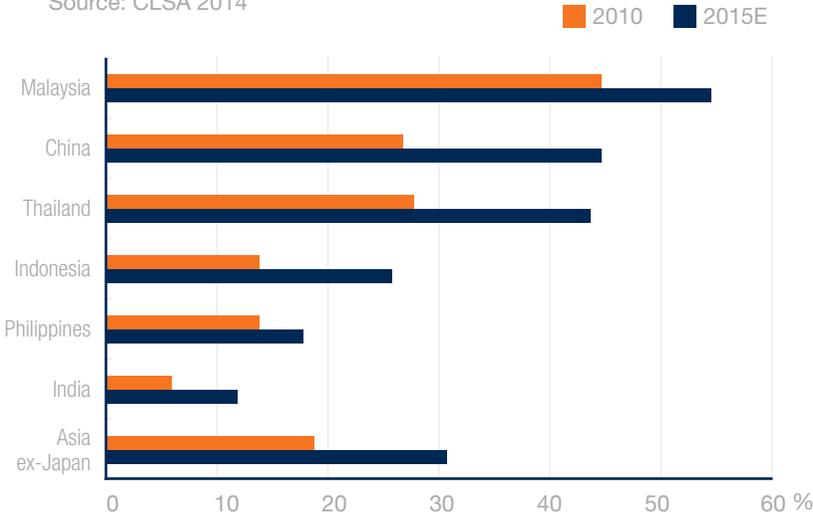
Fast-growing middle classes are moving up Maslow’s hierarchy of needs, heading for the point of self-actualization when spending changes from “I need” to “I want.”

Can you describe the multi-year structural themes in Asia that comprise these high conviction portfolios?

The thematic plays have different effects and weightings across the region. Top of the pile is the rise of the Asian consumer. Fast-growing middle classes are moving up Maslow’s hierarchy of needs, heading for the point of self-actualization when spending changes from “I need” to “I want.” The theme links into other distinct elements.

Percentage of Population in Middle Class

Source: CLSA 2014



The growing Asian middle class will enjoy greater purchasing power

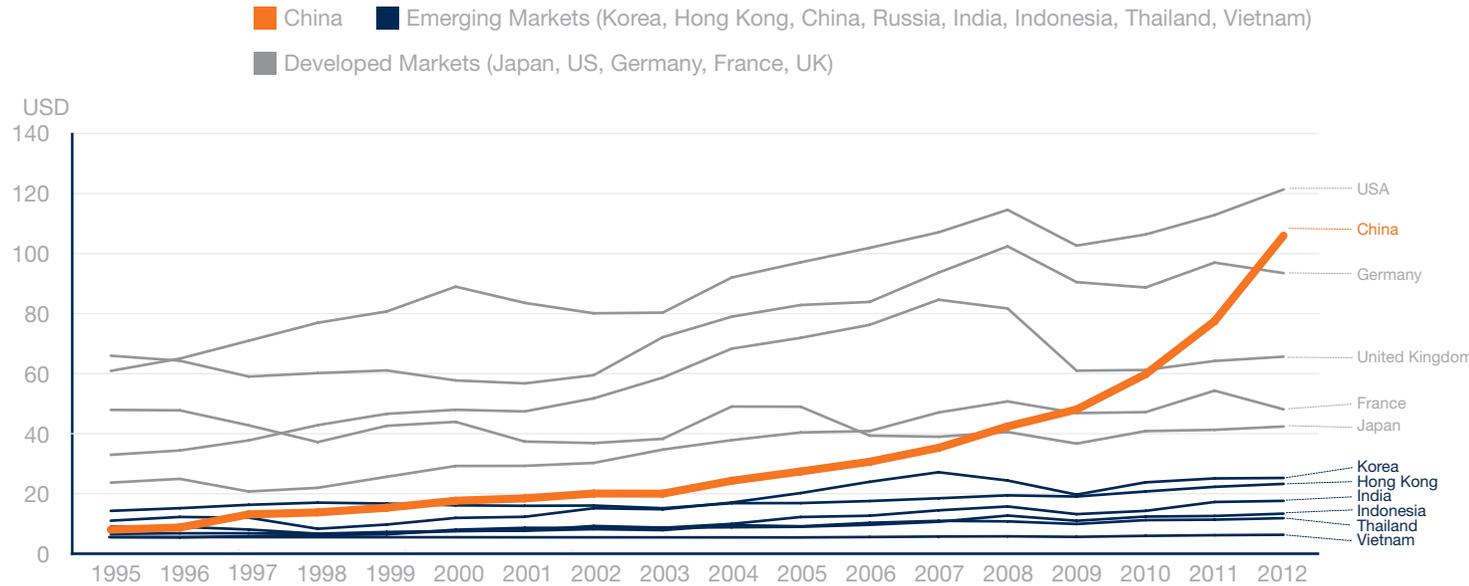


Tourism

There are now 400 million Chinese consumers who have reached the US\$8,000 annual income threshold that makes tourism a must.

International Tourism, Expenditures (current US\$)

Source: World Bank 2014



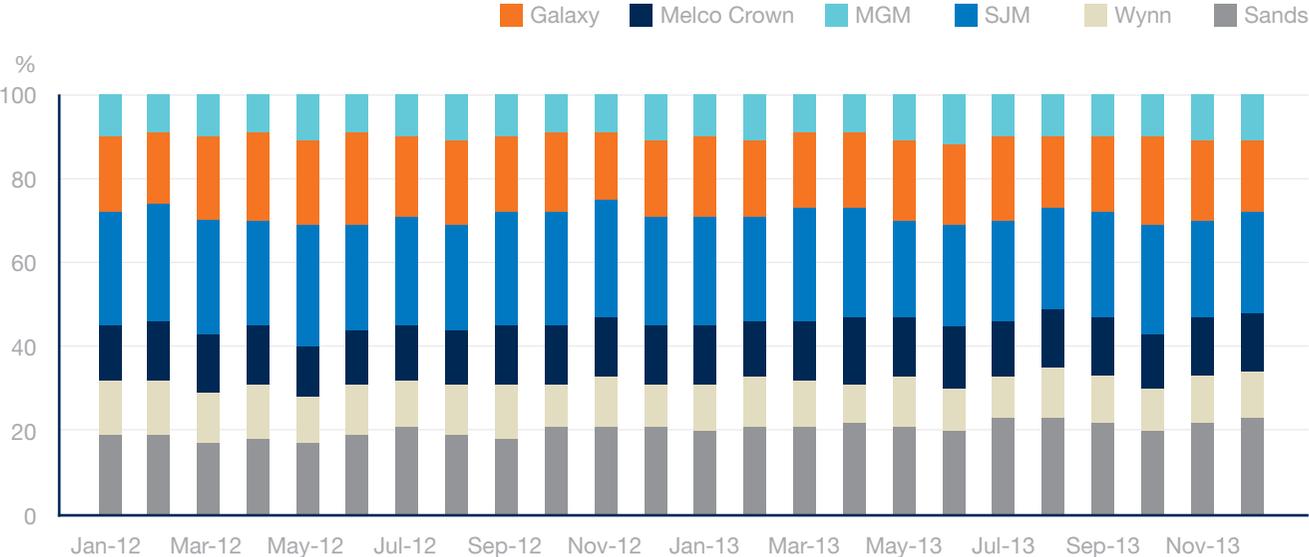
Chinese tourism expenditures are surging ahead

Gaming

The gaming theme is a single subset of Asia’s consumer power. Galaxy is a favored gaming stock with high barriers to entry. It is not necessarily the largest casino operator in China’s playground but it has leadership potential. Strict licensing laws stop competitors from moving in and Galaxy’s excellent working relationships with the Chinese government should speed future land purchases and expansion.

Macau Gaming Marketshare Timeline Series

Source: CLSA 2014



High regulatory barriers to entry and necessary government relationships help ensure existing players reap gains from the market

Global food giants often find that Asian consumers spend far less on worldwide branded goods, preferring indigenous foodstuffs, snacks and beverages.

Local Taste

There are specific characteristics to Asian markets that companies can exploit. Global food giants often find that Asian consumers spend far less on worldwide branded goods, preferring indigenous foodstuffs, snacks and beverages. Local brands also know which price points work best for local purses. Universal Robina is one such stock. We call it the “Kraft Foods of Asia,” but it comes at a fraction of the price. This Philippine snack and beverage firm dominates its home market and as snacking takes off across the region, the company is well-placed to adapt in other markets – its share price has tripled in three years.



Older populations are getting richer, demanding better treatments and medicines.

Healthcare

Healthcare is another key sector. Rising income and greater government scheme coverage are good news for local players in India and across the ASEAN region. Older populations are getting richer, demanding better treatments and medicines. Our team likes Lupin, a play on chronic therapy growth in the Indian market. Almost US\$100 billion of drugs going off patent in the US over 2012-2017 creates a huge opportunity. China too is an attractive market, provided companies have some patent protection to ward off tender-led price competition.

Savvy Asians are bypassing the PC era altogether, using their smartphones to access e-commerce.

Technology

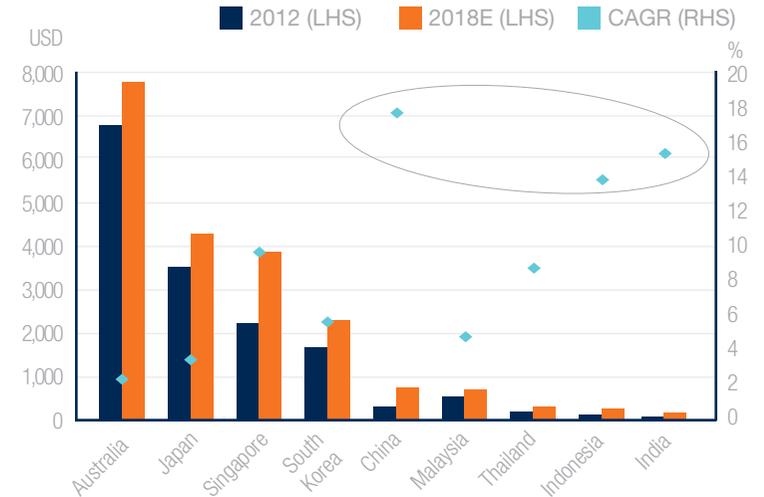
An additional important play, or rather a number of interconnected plays, is technology. On the consumer side, savvy Asians are bypassing the PC era altogether, using their smartphones to access e-commerce. In business, Asia's IT service companies are spanning the world, led by infrastructure management and application development firms in India.

Clean tech is also a multi-year theme, driven by China's attempts to tackle pollution. The government has announced its commitment to spend RMB1.7 trillion over the next five years² towards a "Cleaner China" that will boost wind and gas energy production.

² Source: Reuters, as of February 18, 2014

APAC Healthcare Expenditures

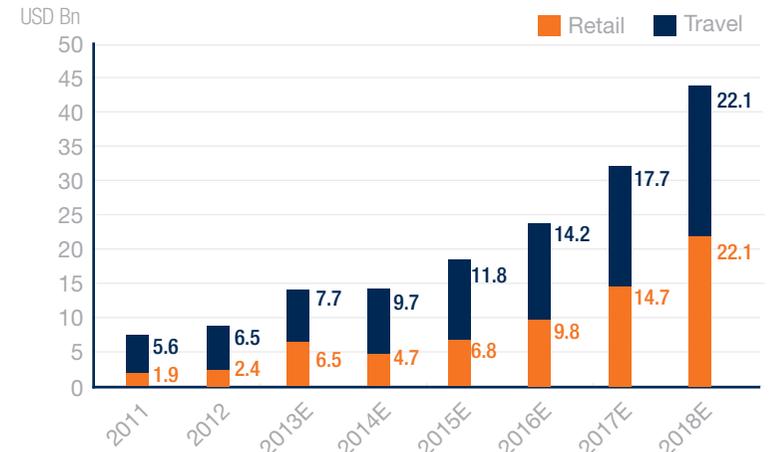
Source: Frost & Sullivan 2014



Healthcare spending will rise across Asia, with particular pace in China, Thailand, Indonesia, and India

Indian E-Commerce Market

Source: Internet & Mobile Association of India 2014



Indian online retailing and travel is poised to leapfrog other emerging markets in the years to come

What asynchronous trends exist across Asia and how do you see them running their course in terms of the strategies' geographical allocation?

Tourism, gaming and luxury goods are stronger trends in China than elsewhere. We believe that investors who have not yet realized the subtle variations could be in for disappointment. We had a homogenous bull run from 2000 to 2008, but not now. US monetary policy, local government strategies and reforms, and even demographics have changed the outlook for each country.

The investment team of Mirae Asset Global Investments is overweight India presently, believing that Prime Minister Modi is already on the right reformist path. The team is also positive on Hong Kong and China as it sees no hard landing in sight. But commodities are underweight as the long bull-run is over. With China rebalancing its economy towards consumerism, commodity demand could be soft for a long while.

Korea and Taiwan are both underweight on demographic considerations. In Taiwan, the ageing population is forcing manufacturing to move to lower cost bases in China. Yet both countries still have the occasional surprise, particularly in the service sectors.

Indonesia remains challenging as the economy is too dependent on commodities. At least the government recognizes this and is beginning to change. Notwithstanding favorable demographics, the onus lies on the new Jokowi-led government to reduce wasteful fuel subsidies and to channel resources to infrastructure and manufacturing to scale up the economy. Singapore and Malaysia have turned more inward looking, manufacturing is moving out.

The country-level star is the Philippines. It has strong demographics and an English language advantage over its Asian rivals. Remittances from Filipinos working overseas and BPOs are growth drivers.

What is your attitude toward stock valuations in Asia?

We are definitely keen on hunting out the region's value paradigms. Although MSCI AC Asia ex Japan Index gained 6.6% in the first half of 2014, much of the region remains cheap.

Asia is trading at around a 25% discount to mid-cycle earnings³, similar to valuations last seen in the recessions of 1990, 2001 and 2008. But Asia is not in recession, so even value names such as Korean utilities are worth a look. They will not be value traps, provided the business outlook improves in a reasonable period of time.

³ Source: Bloomberg, as of October 31, 2014

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