The Multi-Decade Asian Consumer

Joohee An, Senior Portfolio Manager, Mirae Asset Global Investments (HK)

What are the opportunities and the structural potential that you assign to Asia's consumer markets?

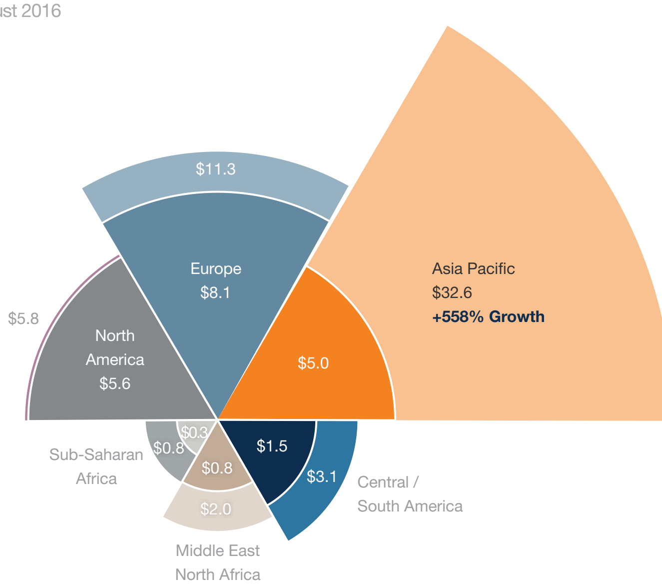
We believe that the rise of the Asian consumer is the most important opportunity in Asia and represents a multi-decade story that is still in its early stages. The main factors encouraging the long term consumption trend in Asia are demographics, wage growth and government policy. China is a key growth driver in the region and the government's priority is transitioning the economy to one that is more consumption- led, a process which has already begun.

Over the past few years, technology advancements have been a game changer and they have brought about a big shift in consumption patterns. Take e-commerce for example, China has quickly become the world's largest e-commerce market with more than US$750 billion in sales in 2016.[1] We believe that online retail will continue to grow rapidly in the coming years, driven by greater penetration in lower tier cities/rural areas and growth in categories such as fast-moving consumer goods (FMCG).

Besides leading online businesses in internet, e-commerce and online gaming, other themes that we are currently seeking to capture include growing demand for financial products and healthcare, tourism, education, gaming, consumers' upgrading ('premiumization') and the emergence of local brands throughout emerging Asian markets.

Middle Class Consumer Spending : 2009 to 2030

Source: OECD, The Emerging Middle Class in Developing Countries (2010), Accessed in August 2016

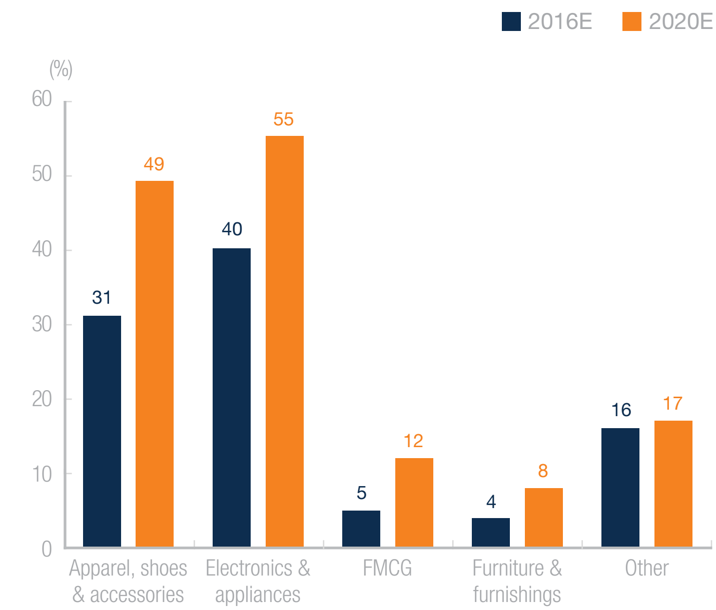


* Outer circle denotes 2030

[1] Goldman Sachs (2017)

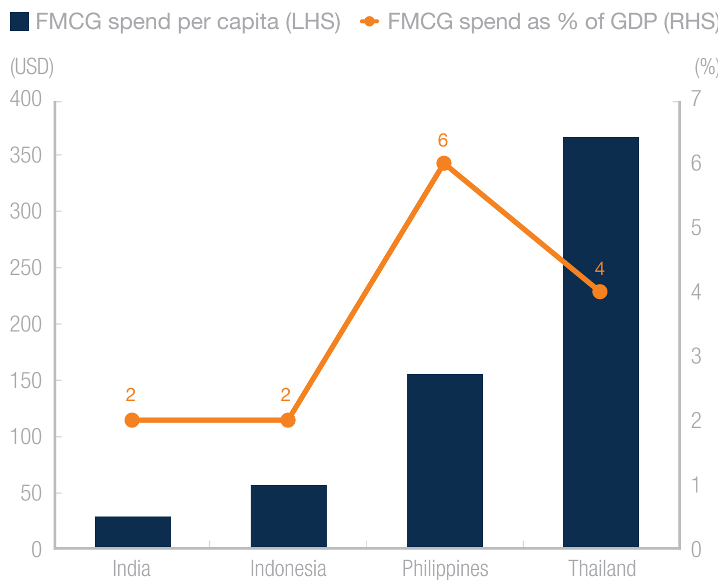
China Online Penetration of Goods

Source: Euromonitor, iResearch, Kantar, eMarketer, Company Data, GS Research, Mirae Asset (February 2017)



India's FMCG Spend Lower vs. Regional Peers

Source: CII FMCG Summit, IIFL Research, December 2016

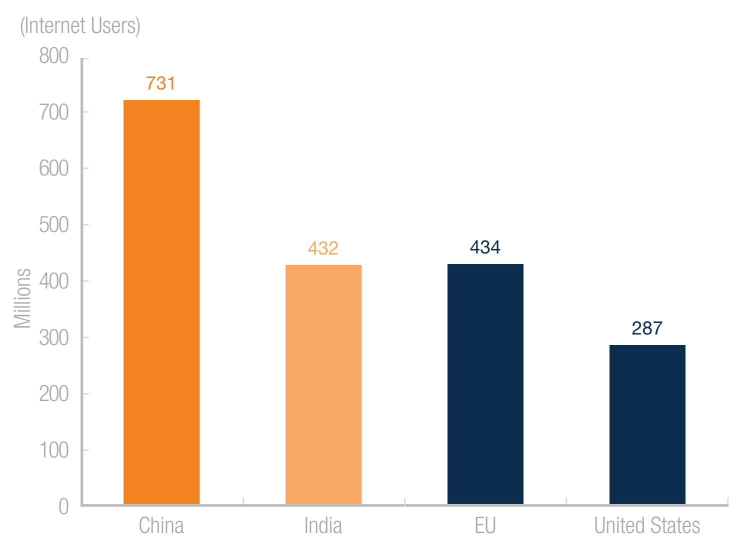


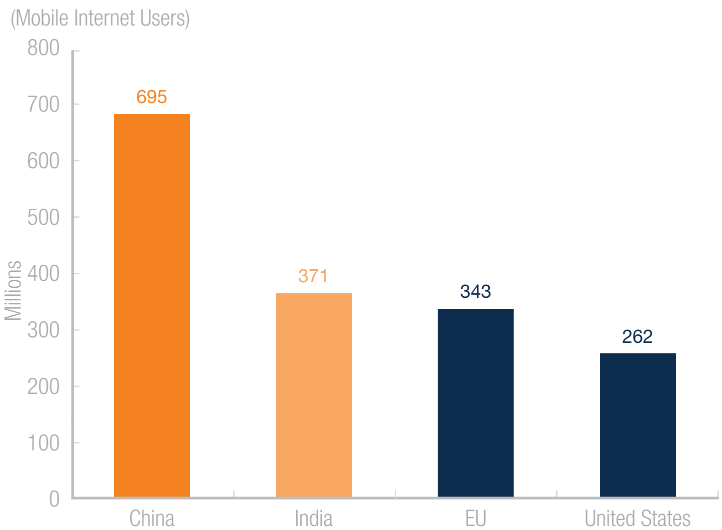
What are the unique characteristics of Asian consumers? Do you see shifts in attitudes and consumption patterns?

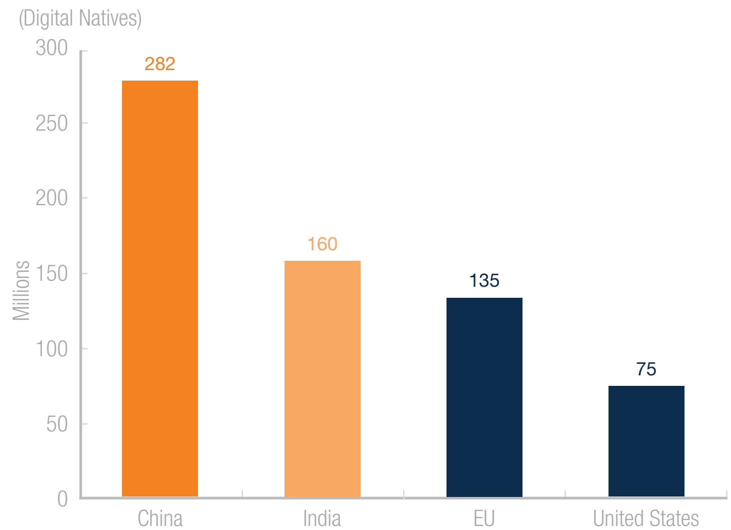
Although Asian consumers are considered as a 'new' or 'emerging' class of consumers, it is important to note that new technology trends such as mobile usage and social media have meant that Asian consumption patterns are different to those of European or US consumers in their 'emerging' phase. This is particularly true for the younger generation, as they have grown up in a connected world and are receptive to Western ideas and lifestyle. As an example, a few years ago Asian consumers liked to buy luxury brand goods such as designer bags, watches, jewelry, etc., but nowadays they aspire to seek more experiences and focus more on leisure and wellbeing.

Snapshot of Internet Landscape Segments by Large Market

Source: "China's Digital Economy, A Leading Global Force," McKinsey Global Institute (August 2017)



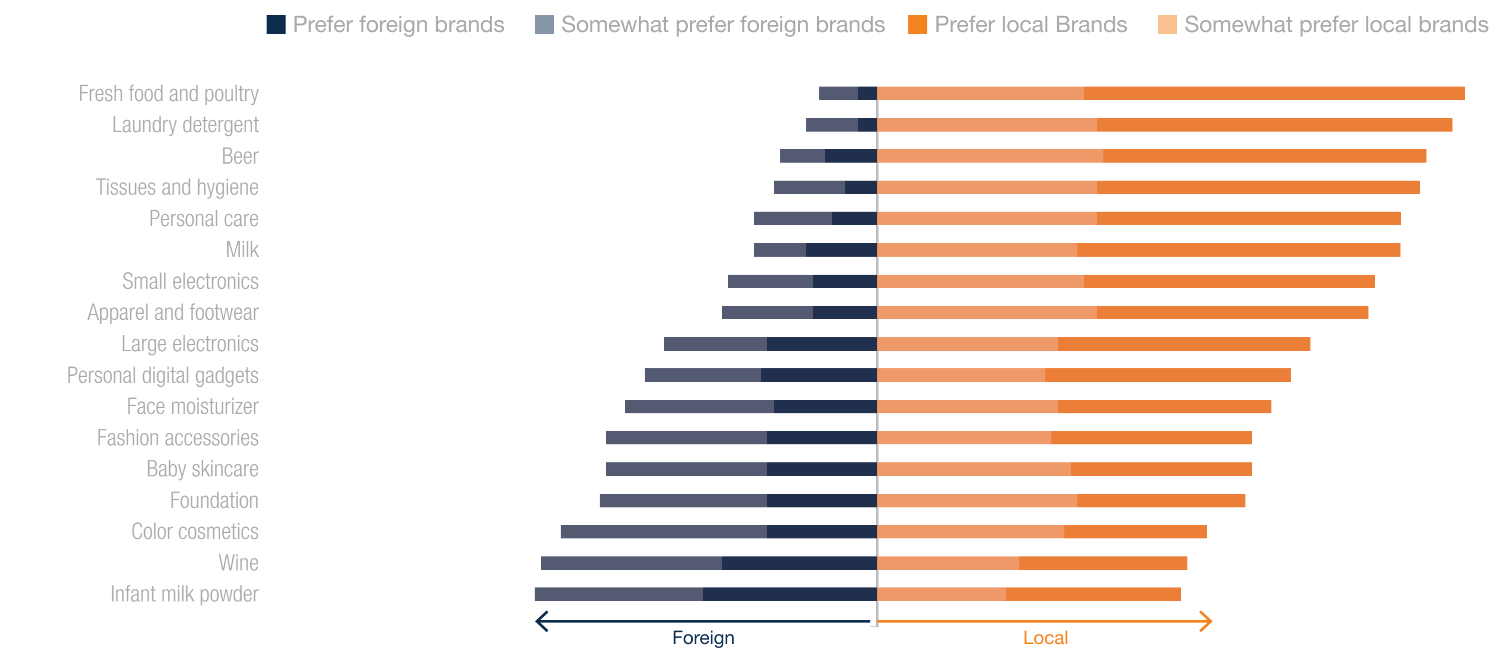




We also see a shift in attitudes evident in the way that Asian consumers, especially in China, perceive local brands – e.g. in categories such as home appliances and food & beverage, local brands are becoming more popular and not viewed as being inferior in quality.

Chinese Consumers' Nuanced View of Foreign and Local Brands

Source: "Double-clicking on the Chinese consumer," McKinsey&Company (November 2017)

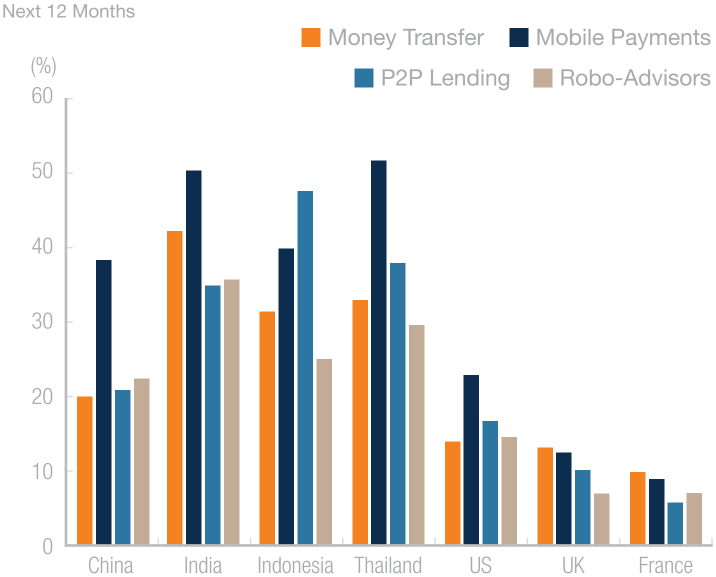


Lastly, it is important to understand that consumption patterns for each of the countries in the region are quite unique due to the differences in consumer behavior, economic environment and government regulations. This means that the consumption related trends are country-specific and as such, taking a broad and bottom-up driven investment approach is more appropriate in order to better capture those opportunities.

Asian Consumers More Open to New FinTech Services

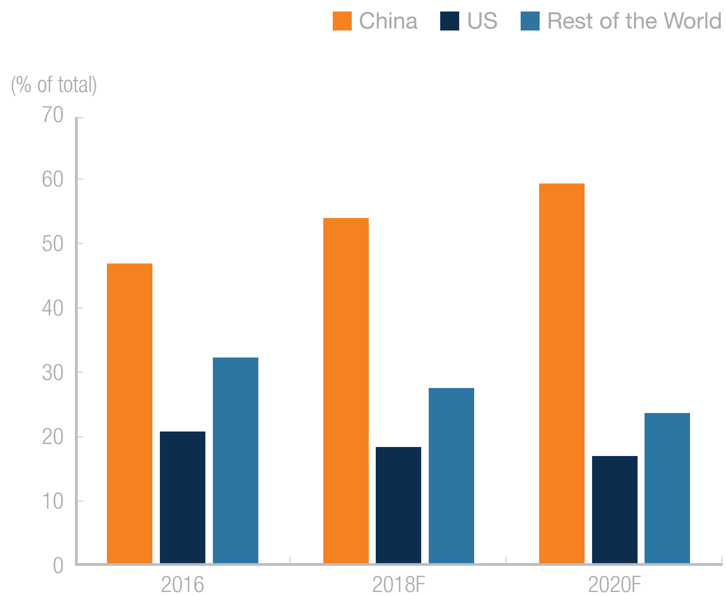
Source: UBS Evidence Lab survey (July 2016)

Consumer Survey: % Respondents likely to use Non-Bank Financial Services over Next 12 Months



China is the World's Largest Retail E-commerce Market

Source: eMarketer, 2016. China excludes Hong Kong.



How do you differentiate your style and approach toward investing relative to the peer group in the same category?

Unlike other pure-play consumptions strategies, the Fund does not focus solely on the consumer sector but on a broad range of sectors that will benefit from increased consumption. The portfolio also accesses companies in sectors such as technology, healthcare and financials. The investment process is benchmark-agnostic and sector/country allocation of the portfolio is purely an end-result of bottom-up stock picking. The portfolio manager aims to construct a concentrated, high conviction portfolio of 30 to 40 stocks of the best quality names which stand to benefit the most from the Asian consumption theme.

The Asian consumer opportunity is wide ranging and the best way to capture and benefit from this theme involves identifying the nascent developments early. We believe that in order to do this well, a local presence is important. Our investment teams are based across multiple cities in Asia – from Seoul to Taipei, Mumbai, Shanghai, and Hong Kong – and the teams often travel across the region to conduct research, which entails company meetings and extensive channel checks. Altogether, these visits essentially allow the investment professionals to get a good sense of what is happening on the ground.

How do you view the Chinese technology sector? Do you think there is further upside?

Indeed the Chinese internet/e-commerce stocks have rallied strongly this year. However we believe the growth outlook for the Chinese internet/e-commerce companies, such as Tencent and Alibaba remains strong and healthy from a long-term perspective. We expect earnings growth/upgrades will continue to be the main return driver.

Tencent and Alibaba have been diversifying their earnings sources for the last several years through market consolidation in China. For Tencent, though it leads in online gaming and social media, advertising monetization is still relatively low with less than 1% advertising load on WeChat Moments.[2] WeChat Pay will also be a new revenue driver on the back of the rapid mobile payment growth combined with Tencent's huge user base (close to one billion active users). Alibaba's core commerce business continues to be strong, evidenced by the Singles Day alone generating USD 25 billion in sales (GMV) this year and active buyers are increasing, reaching over 480 million.[3] Cloud and payments businesses will also be key future levers of growth.

What are the risks for upcoming six to twelve months that may occur to the fund /Asia consumer market?

Currently our overall outlook is fairly positive as fundamentals continue to show signs of further strengthening. Underlying demand in major markets, such as China and India, appear resilient and provided a supportive external environment, we should see growth recovery continue. The main risks would be related to a meaningful deterioration in the current global macro environment such as excessive government/central bank tightening and global geopolitical risks. These risks could trigger some volatility in the market however; we believe the impact on company earnings should be limited for the consumption theme.

The strategy has outperformed the benchmark each year with the exception of 2016, what was the reason for this? What is the alpha generator of the strategy?

2016 was a challenging year for consumption thematic strategy as a result of a large market style shift into cyclical sectors. Following the initial China-led crash in January, risk appetite returned on the back of China's credit-fueled stimulus, dovish central banks and reflationary trade on the back of President Trump's election. This led to a sharp style shift favoring poor-quality (lower return on equity and higher leverage) and cheap (value) companies, particularly those in cyclical sectors such as materials, energy and technology hardware. This style shift was exacerbated by resurgent passive ETF flows into large benchmark stocks, which tend to be more cyclical in nature.

Despite the difficult market conditions last year for the Fund, our approach remained the same – investing in consumption-related companies with a structural bias towards quality. Our core strategy stays focused on themes such as internet / e-commerce, healthcare, tourism, insurance and local tastes of consumers. Many of the structural growth areas in consumption that went through a period of underperformance last year became relatively more attractive from the risk-return point of view and we saw this as a buying opportunity. We added more exposure to high-quality stocks including the large Chinese internet and e-commerce companies during times when stock prices corrected due to market rotation.

Since April of 2017, we observed that markets are changing to be more fundamental-driven, rewarding the companies that have delivered good earnings results. This is positive for high quality laggards that have benefited the portfolio. Our approach to investment is underpinned by rigorous fundamental, bottom up research. Stock selection has been a key contributor of positive fund performance since inception.

[2] Mirae Asset, Company Disclosures (2017)
[3] Ibid.

Global Offices

Mirae Asset Global Investments
12F, Tower 1, 33, Jong-ro, Jongno-gu,
Seoul, 03159, Republic of Korea
Tel.+82-2-3774-8200

Mirae Asset Global Investments (HK)
Level 15, Three Pacific Place, 1 Queen's
Road East, Hong Kong, HK
Tel.+852-2295-1500

Mirae Asset Global Investments (UK)
4-6 Royal Exchange Buildings,
London, EC3V 3NL, United Kingdom
Tel. +44-20-7715-9900

Mirae Asset Global Investments (USA)
1350 Avenue of the Americas,
33rd Floor, New York, NY, 10019, USA
Tel. +1-212-205-8300

Mirae Asset Global Investments (Taiwan)
6F, NO. 42, Sec.2 Zhongshan N. Rd.,
Taipei City 10445, Taiwan (R.O.C)
Tel. +886-2-7725-7555

Mirae Asset Global Investments (India)
Unit No. 606, 6th Floor, Windsor Building
Off. C.S.T Road, Vidyanagari Marg.
Kalina, Sanatacruz (East), Mumbai
400 098, India
Tel. +91-22-6780-0300

Mirae Asset Global Investments (Brazil)
Rua Olimpíadas, 194/200,
12 Andar, CJ 121, Vila Olímpia
São Paulo, CEP 04551-000, Brazil
Tel: +55-11-2608-8500

Disclaimer