



WEBINAR SUMMARY

The Outlook for Asian Equities in H2 2020 – Insights into Asia’s Recovery and Beyond

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Equity Strategy

Coronavirus – Road to Recovery

- Social distancing measures have worked successfully, and much of Asia is getting back to a more normal environment.
- Compared to developed markets, government stimulus has been restrained. Asian economies, including China, have taken a more measured approach as economic pressures have been less. Quick action and constant monitoring of the virus have allowed economies to reopen quicker.
- Hong Kong, Singapore and the Philippines may enter a recessionary period, but we anticipate they will bounce back quickly. Some weaker economies, like India, where there is still more of a severe lockdown may struggle, but we believe they can bounce back quicker than during the financial crisis.
- Consumption has been recovering well, and consumers appear to be returning to more normal spending patterns.

Stock markets return to more normal, but earnings growth for 2020 remains opaque

- We have seen much of Asia recover. Valuations have normalised with markets looking through short-term coronavirus concerns to focus on potential earnings for 2021 and beyond.
- As like other regions, 2020 earnings for Asian companies are difficult to predict.
- Valuations are not stretched, but there are areas where stock prices look more expensive.
- As markets in aggregate are not far away from pre-COVID levels, we could see a pullback in the near term if we see a second wave of the virus, or if stimulus is not delivered when needed.

Opportunities across the region

- The market selloff has paved the way for some compelling opportunities. We would split the opportunity set into four categories:
 1. Companies that have performed well because of the virus, and where some stocks may now look a little expensive.
 2. The long and stable secular winners, where valuations are not egregious, and have traded broadly in line with their earnings growth. These stocks continue to trade well below their long-term averages, so we believe there is good value still to be found long term.
 3. Stocks hit badly by the coronavirus pandemic (leisure, travel, food). Confidence levels remain poor in these sectors, but there are pockets of good value and we have been increasing our exposure to some.
 4. There are also the deep value and economically sensitive areas, such as banks, materials and energy. Many of these are trading at 1-standard deviation below their long-term averages, but we see no immediate catalysts right now for them to re-rate.
- We believe the coronavirus pandemic will accelerate the domestic consumption story, but investors should think of the consumer in a more varied way. Within China the focus is on digital, social media and high-end products as income levels continue to rise strongly. By contrast, in India and other countries, it is more about penetration levels and consolidation within fragmented industries.
- The trend of import substitution is also an important one. There has been a huge push to source goods locally and some of these companies can eventually become global players. We see opportunities in technology, health care and local consumer brands.
- ESG factors form an important and integral part of our investment process. Our ESG team provide ratings on each company in our universe. But it is important to note that our holdings do not necessarily have to have a green rating. We may own some orange-rated stocks, where the companies still have ESG-related matters to improve on. However, as long as we see action to address these issues, we are comfortable owning these, and helping to influence them to improve. We never hold stocks that have been rated red by our ESG team, unless we see a clear change in their strategy towards ESG.
- Overall, we continue to maintain our strategy of looking for companies that are winning market share, have good capital structures (strong cashflow), and have innovation at their heart.

U.S./China Relations

- The pandemic had somewhat pushed this to the side lines, but rhetoric has increased in recent weeks.
- The U.S./China relationship is likely to remain strained, with much more focus on self-reliance. We expect the relationship status to ebb and flow over the next few years as both countries focus on technology, national security and economic protectionism.
- The prospect of Chinese companies listed on U.S. exchanges moving their listing back to Hong Kong is possible. Alibaba already has a dual listing, for example. However, we still believe that diplomacy may prevent this happening, and if not, any movement will be some years away.

Looking beyond 2020

- We should start to see earnings growth recover from next year onwards.
- We believe that some countries and businesses may use the coronavirus pandemic to force through change to innovate.
- U.S. markets have outperformed because of their higher exposure to innovative businesses and domestic consumption, which has been such a powerful tailwind over the last decade. At the same time, investors have generally avoided deeply cyclical and economically sensitive stocks.
- The U.S. has been at the forefront of innovation and have allowed investors to benefit from that innovation. We believe from our meetings and observations that Asia too can be on a similar trajectory.
- Asia has recorded the highest number of new IPOs in recent years, across a wide breadth of industries. We have seen 3,429 companies listed in the Asia ex-Japan region from December 2015 to December 2019.¹
- With Asian markets being under-represented within global equity indices, we believe the region should increase its weighting quite dramatically going forward. The amount of new companies in China, for example, could see those weights double or even triple.

¹ Source: Financial data and analytics provider FactSet. Copyright 2020 FactSet. All Rights Reserved.

Risks – the following risks are materially relevant to the portfolio

- **Country risk (China)** – all investments in China are subject to risks similar to those for other emerging markets investments. In addition, investments that are purchased or held in connection with a QFII license or the Stock Connect program may be subject to additional risks.
- **Currency risk** – changes in currency exchange rates could reduce investment gains or increase investment losses.
- **Emerging markets risk** – emerging markets are less established than developed markets and therefore involve higher risks.
- **Small and mid-cap risk** – stocks of small and mid-size companies can be more volatile than stocks of larger companies.
- **Style risk** – different investment styles typically go in and out of favour depending on market conditions and investor sentiment.

General Portfolio Risks

- **Capital risk** – the value of your investment will vary and is not guaranteed. It will be affected by changes in the exchange rate between the base currency of the portfolio and the currency in which you subscribed, if different.
- **Equity risk** – in general, equities involve higher risks than bonds or money market instruments.
- **Geographic concentration risk** – to the extent that a portfolio invests a large portion of its assets in a particular geographic area, its performance will be more strongly affected by events within that area.
- **Hedging risk** – a portfolio's attempts to reduce or eliminate certain risks through hedging may not work as intended.
- **Investment portfolio risk** – investing in portfolios involves certain risks an investor would not face if investing in markets directly.
- **Management risk** – the investment manager or its designees may at times find their obligations to a portfolio to be in conflict with their obligations to other investment portfolios they manage (although in such cases, all portfolios will be dealt with equitably).
- **Operational risk** – operational failures could lead to disruptions of portfolio operations or financial losses.

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