PIAS

PROFESSIONAL INVESTMENT ADVISORY SERVICES

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CONTRIBUTORS

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Winds of change favour China's advanced tech companies

Author | Allianz Global Investors, 09/2022

China has a long history at the forefront of innovation, and government policy is ensuring it continues that tradition to drive the next stage of the country's ongoing economic growth story.

Key Takeaways

- China has ambitious economic growth targets, and advances in tech and innovation will be integral to achieving this vision
- Government policy is fostering innovation in China, with recent policy changes relating to the tech sector helping industrial tech players to outperform consumer tech
- Companies that embrace these changes – in available technology and government policy – will be well positioned to benefit

China's most recent five-year plan, published in 2020, featured the word "innovation" 165 times while "digital" appeared 81 times. By contrast, "the Communist Party" was mentioned only 54 times. The importance China's government is placing on its intensifying quest to become a tech superpower is clear, as it looks to double its GDP by 2035.

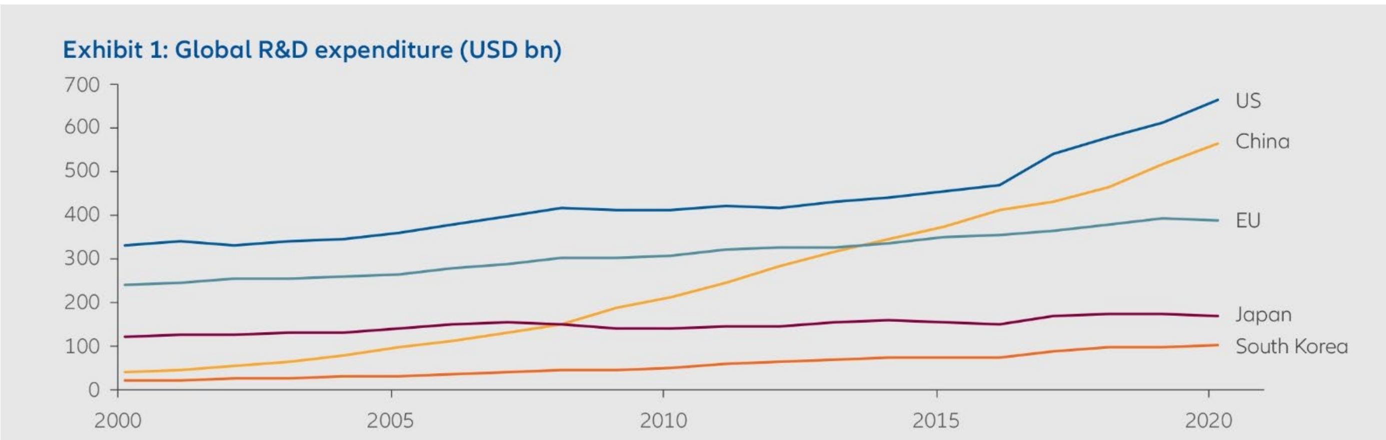
China's recent growth story has been synonymous with consumer tech – both platforms and hardware – but the country is sharpening its focus on high-tech manufacturing, and embarking on a new wave of innovation intended to secure its position as the global leader in industrial tech. Succeeding in this goal will be key to China achieving self-sufficiency in those areas of the economy that it considers most strategically important, such as building the tech infrastructure needed to underpin the country's targeted growth.

Notably the government has adopted a policy of channeling investment and resources into industrial tech over consumer tech. Equity markets foresaw this change in tech policy as long ago as 2019, when the semiconductor index started to outperform the internet index. That was two years before a high-profile crackdown on consumer tech began in 2021, which saw tighter government monitoring and stricter regulatory enforcement in the sector, impacting several big-name Chinese tech stocks.

A Shift in Government Focus on Tech

These policy shifts can tell us a lot about government plans for the future of tech in China. As a result, some domestic Chinese stocks could appeal to investors looking to benefit from China's ongoing emergence as a distinct tech superpower.

Evidence of China's new wave of innovation abounds. It is already the world's largest market for electric vehicles (EVs), accounting for about 40% of global sales; it is the world leader in renewables, with more than 70% of global output across the solar production chain; it has more than 1,000 new drugs currently in development; and is the world's largest market for industrial robots.



Source: OECD data, Allianz Global Investors, as of 2020

Additionally, China accounts for the highest number of patent and trademark applications globally; in 2020, the country accounted for 45.7% of all patent filings and 54.3% of trademarks.[1] As Exhibit 1 shows, North America still leads in terms of research and development spending, but China is closing the gap.

Policy supporting new tech

Those companies at the forefront of harnessing new technologies are benefiting from policy and economic tailwinds, which are accelerating their profit growth. We believe that opportunities will exist for investors in areas such as industrial automation, green tech, healthcare, semiconductors, and smart transportation.

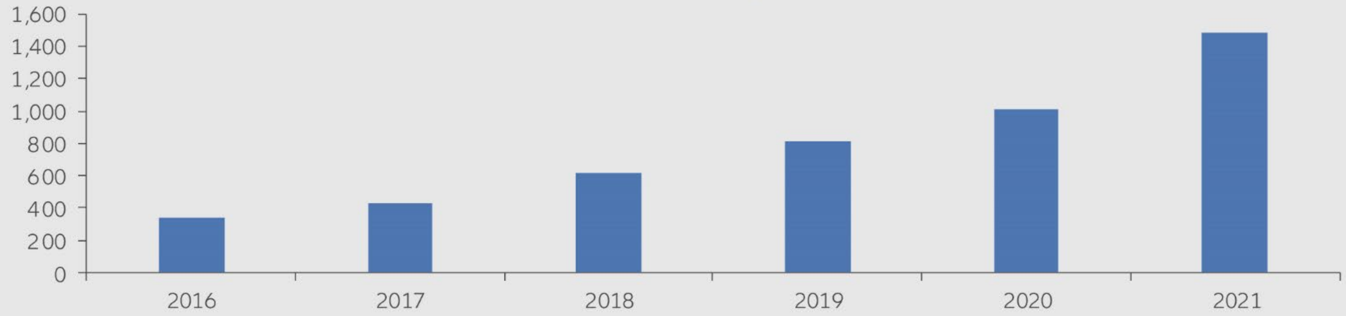
Robot density is often used as a yardstick of a country's technological development. With an ageing population and increasing labour costs, Chinese companies are embracing industrial automation and installing robots at a rate that has seen the country quickly rise to rank in the top 10 countries globally in terms of robot density. The adoption of robotics is likely still at an early stage and there remains further room for growth.

Semiconductors are probably even more important for the country's future ambitions. By value, China imports more semiconductors than it does oil. The chips are the key commodity for various aspects of manufacturing tech. Just consider EVs: as Exhibit 2 shows, semiconductors are needed for functions including motor control, cameras, human-machine interaction, high-performance processors, display systems and many other features. As demand for the technology underpinned by semiconductors rises, so demand for the semiconductors themselves will likely rise in line.

Exhibit 2: Semiconductor demand to rise with technological advancement (eg, smart transportation)

Source: Allianz Global Investors

Exhibit 3: Number of Chinese clinical trials for “innovative” drugs



Source: PharmaGO database as at May 2022. The information above is provided for illustrative purposes only, it should not be considered a recommendation to purchase or sell any particular security or strategy or an investment advice. Past performance, or any prediction, projection or forecast, is not indicative of future performance.

Pioneering medicine

Another area of innovation that is growing rapidly – driven by the burgeoning needs of a population which is growing older and more affluent, but less healthy– is healthcare. By 2060, we estimate that China’s population will include about 400 million over-65s – almost a third of the population. About half of that number are predicted to suffer from cancer or cardiovascular or neurological diseases. At the same time, rates of diabetes and obesity are surging among younger people.

To treat these illnesses, innovation in drug development and medical devices is booming. As Exhibit 3 illustrates, there are around 1,500 drugs in clinical trials, up from about 300 as recently as 2016.

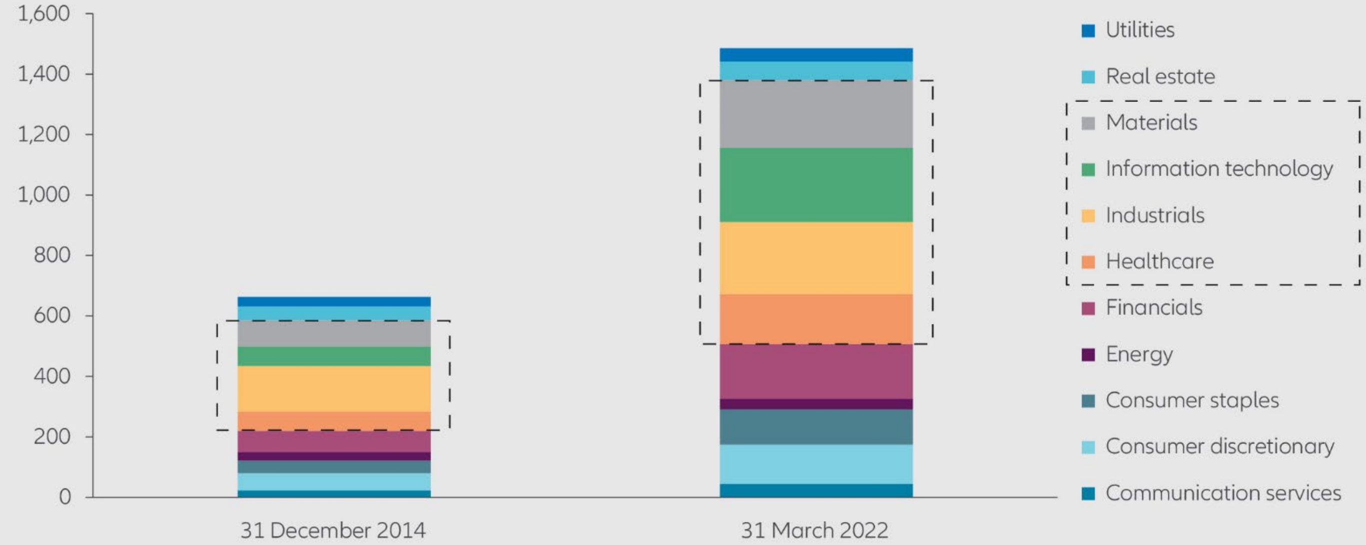
Healthcare innovation will likely drive further opportunities for investors as China seeks to build on its long history of pioneering medicine. Currently the market capitalisation of the five biggest Chinese healthcare companies, equates to only about a quarter of the five largest EU healthcare firms, and just 15% of the five largest US firms’ market cap. We anticipate significant room for further growth in the next 10 to 20 years.

Industrial tech and healthcare driving China's growth

While sectors like domestic consumption and real estate led China's growth in the past decade, in the 2020s the baton has been handed to advanced technology, most notably industrial tech and healthcare. The importance of these sectors to the broader Chinese economy should mean that the government continues to foster a supportive environment for companies operating in these areas.

These sectors have already seen significant expansion, as Exhibit 4 shows. Those companies harnessing innovation most successfully should yield still greater opportunity in the future.

Exhibit 4: Number of stocks per sector in MSCI China and MSCI China A Onshore Index combined



Source: Bloomberg as at 31 March 2022. The information above is provided for illustrative purposes only, it should not be considered a recommendation to purchase or sell at any particular security or strategy or an investment advice.

[1] WIPO Statistics Database, February 2022

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Active is: Allianz Global Investors

Data as at 30 September 2022. Total assets under management are assets or securities portfolios, valued at current market value, for which Allianz Asset Management companies are responsible vis-á-vis clients for providing discretionary investment management decisions and portfolio management, either directly or via a sub-advisor. This excludes assets for which Allianz Asset Management companies are primarily responsible for administrative services only. Assets under management are managed on behalf of third parties as well as on behalf of the Allianz Group.

Allianz Global Investors

Are Investment-Linked Plans (ILPs) worth investing in?

Author | Etiqa Insurance Pte. Ltd

There are many different types of investment products out there, and one that has traditionally divided opinion is none other than Investment-Linked Plans (ILPs).

A hybrid product that combines both insurance and investment, some like it for its flexibility and multi-functionality. Then there are those who believe that you're better off keeping your investments and protection separate. No matter which camp you belong to, find out if ILPs are worth investing in, and when you might want to consider them over other investment products, or not.

But first, what makes something worth investing in?

What makes a good investment?

The first characteristic of a good investment is its ability to make you money. But that's not all you should look at. All investments come with risks, so it's important that you find an investment that is suitable for you before pumping your hard-earned savings into the product.

Besides earning you money, a good investment is one that matches your risk tolerance and financial objectives. Here are things to look out for when identifying a good investment.

- **Potential rate of returns:** Are the returns attractive?
- **Investment risks:** Are returns or the capital guaranteed? What risks are you exposed to, and is it within your risk tolerance?
- **Simple:** Is the product easy to understand?
- **Transparent:** Do you know where your money is going, and how the investment works?
- **Time horizon:** How long do you have to hold on to the product for the best results? Does it fit in your financial plan?

For example, if you are risk averse and prefer a product that gives you guaranteed returns, then perhaps a good investment for you would be endowment plans or deposit products. However, if you have a higher risk appetite and are looking for potentially greater returns, ILPs could be the answer.

ILPs can be a good investment if you have a mid to longer term investment horizon to ride out market fluctuations. Though returns are not guaranteed, ILPs tend to offer higher rates of returns along with attractive bonuses. It can be a good addition to your investment portfolio if you are looking to diversify it with higher growth products.

However, not all ILPs are made equal. Depending on what type they are, they can be structured quite differently.

How are ILPs structured?

There are primarily two types of ILPs. The first type is insurance-based ILPs, also known as the traditional type, where your premiums are used to purchase fund units and a portion of these are then sold to finance the insurance component of your policy. Sounds complicated, doesn't it?

To add on to the complexity, insurance charges are likely to increase as you grow older, and you might have to sell off more units to get the protection you need, which affects the cash value of your policy.

To simplify things, a newer type of ILP was introduced. This is also known as investment-based ILPs, where 100% of your premiums go towards purchasing investment units. There is still an insurance component, but this is usually calculated as a percentage of your premiums -- for example, 105% of the premiums paid. With the second type of ILPs, things are much more transparent and clear-cut.

ILPs vs investing directly: Pros and cons

With investment-based ILPs, all of your premiums are invested into the fund units. How does this differ from investing directly in unit trusts? While you can most definitely invest directly into your preferred instruments, there are times when an ILP has its benefits.

Investing in ILPs	Investing directly in unit trusts
PROS: • Potentially higher rate of returns with attractive bonuses • Access to exclusive funds including institutional funds • Wide range of funds to choose from • Partial withdrawals or premium holidays may be allowed • Includes Death coverage • Full control of your investment strategy with free unlimited fund switching • Managed by professional fund managers	**PROS:** • Flexible and liquid, you can withdraw your investment anytime • Wide range of funds to choose from • Full control of your investment strategy with fund switching • Managed by professional fund managers
CONS: • Capital is not guaranteed • Returns are not guaranteed • Fees and charges may include policy administrative charges, insurance charges, fund management fees, partial withdrawal charges and surrender charges	**CONS:** • Capital is not guaranteed • Returns are not guaranteed • Customers who purchase unit trusts directly may be charged per transaction including for switching. • Fees and charges may include upfront sales charge, ongoing adviser fees, fund management fees and platform fees

Depending on what your needs are, there may be instances when investing in ILPs brings about more merits than investing on your own, such as lower cash outlay, access to professionally selected funds and funds that may not be readily available to retail investors.

Bonuses, access to selected funds and charges

Most ILPs also come with multiple bonuses. Certain ILPs offer start-up bonus in the initial years of your investment and/or loyalty bonus from a specified number of policy years onwards.

Bonuses will go towards purchasing more units of investment in your policy, which means that you will be able to get more with the same amount of money, as compared to investing in unit trusts directly.

In addition, ILPs also allow access to professionally selected funds and funds that may not be readily available to retail investors. For example, funds that typically require large minimum investment and/or subsequent investment amount. This, in turn allows you exposure to more investment opportunities compared to retail investors.

Last but not least, ILPs usually carry fees and charges such as policy administration charges, insurance charges as well as fund management fees. It is thus important that these charges are transparent and clearly stated upfront by the insurer so that you know what you are paying for.

eTiQa Insurance

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Article contributed by: Etiqa Insurance Pte. Ltd (Company Reg. No. 201331905K).

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Etiqa has been protecting Singaporeans since 1961 with a range of general insurance solutions that constantly evolve to meet their ever-changing needs. Etiqa was the appointed insurer for the Housing Development Board (HDB) Fire Insurance Scheme in Singapore for 10 consecutive years, having protected more than 550,000 homes from 2009 to 2019.

In 2014, Etiqa added a comprehensive suite of life insurance solutions, including protection, savings and retirement, and subsequently legacy planning and universal life solutions to our portfolio to better serve our growing customer base and the needs of the modern day consumer.

Our relentless dedication to being a digital and innovative insurer has resulted in new solutions, such as pioneering online insurance savings plans direct to customers, and the delivery of a customer-centric experience.

For more information, visit www.etiqa.com.sg

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PIAS Investment Outlook (Q1 2023)

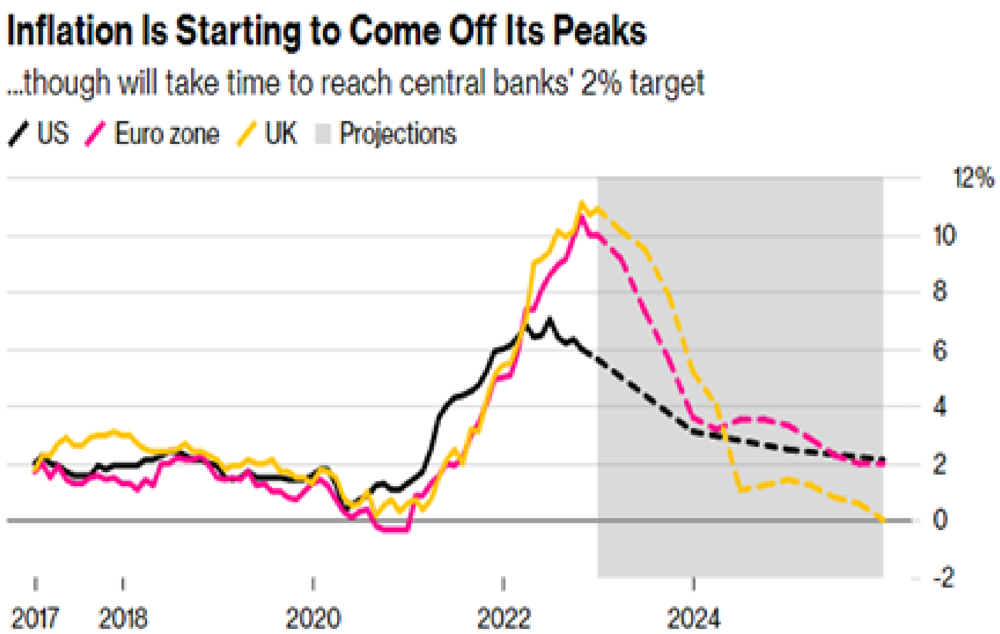
Author | Mavis Tan, Investment Strategy, Partnership Management, Professional Investment Advisory Services Pte Ltd.

2022 will go down in history as a year with one of the steepest tightening cycles in the last few decades, as central banks confront inflation. Both bond and equity markets bore the brunt of rising rates, registering sharp losses, and posting overall negative returns from the year before. Fast forward to the final quarter of the year, price pressures are showing signs of peaking **(Chart A)** and central banks may be arriving at their terminal rates soon, as policymakers signal a deceleration of rate hikes. **However, quarters of monetary tightening had also inevitably ushered in recessionary fears (Chart B). An economic downturn this year – largely expected as a matter of how deep, not how soon – has been a source of worry for investors and driving market sentiments.**

In the US, inflation is moderating from its peak, but November's reading of 7.1% remains much higher than Federal Reserve's long-term target of 2%. While the Fed had toned down on its hawkish stance with a smaller increase from previous months, its commitment to quell inflation has been reiterated. The Fed's monetary policy consists of 'dual mandates' – managing stable inflation, as well as the unemployment rate. **We believe an economic downturn could be cushioned by a resilient labour market and consumption. However, volatilities may stem from policy mistakes if the Fed is too persistent on meeting the inflation target and seeing extensive unemployment before a policy pivot. While we retain our Neutral view of the US, the equities market would continue to be highly reactive to policy expectations – and counterintuitively, good economic data may be interpreted as bad news for equities, and vice versa.**

As the war in Ukraine is possibly turning out to be a multi-year conflict with no obvious or permanent signs of de-escalating, the world embraces an era of elevated commodity prices, with the impact especially felt in Europe. The ongoing energy crisis in Europe and a hawkish ECB could continue to strain the region's growth. While November's inflation data has cooled to 10.10% from the month before, price pressures are not likely to diminish immediately, and more aggressive rate hikes are probably required by ECB than the Fed. **With stubbornly higher inflation and potentially more room for rate hikes than other developed markets, we maintain our cautious outlook for Europe, given its vulnerability to expensive fuel prices and expectations of negative growth and stagflation.**

Inflation of US, Eurozone and UK (Chart A)



Source |Bloomberg, Federal Reserve, ECB, BOE, December 2022

Probability of Recession in the US, UK and Euro Area (Chart B)

Source |Bloomberg, December 2022

In November, the financial markets reacted positively to the much-anticipated relaxation of China's covid-restrictions as the world's second-largest economy exits its zero-covid stance. The announcement of a 16-point policy in support of China's battered property sector added another reason for financial markets to cheer. **Despite the significant policy pivots, we remain Neutral on China in the near term but cautiously optimistic over the longer term. We believe China's recovery could be uneven and the early phases of re-opening may be rocky due to the resurgence of covid cases. Likewise, for the real estate sector, homebuyers' sentiments remained weak and would require time before any material improvements. However, it is notable that the rescue policies minimized a systemic default risk in the sector.** As global demand slows, the re-opening of China may further ease the supply chain squeeze and benefit export-oriented economies such as South Korea and Taiwan. **We believe Asia offers attractive valuations with bright spots such as India, which is forecasted to deliver higher-than-average growth with a relatively muted inflationary impact, giving rise to our slightly positive view of the region.**

As we acknowledge the consequential global slowdown from policies tightening and prolonged geopolitical conflicts, opportunities do exist during downturns and the market may move ahead of itself. While we continue to expect market volatilities, there may be opportunity costs associated with taking an overly conservative stance. We, therefore, recommend investors to stay invested in a well-diversified portfolio and avoid the recency bias from last year's experiences in the financial markets.

Author | Mavis Tan, Investment Strategy, Partnership Management | PIAS
Source | Charts extracted from Bloomberg, December 2022

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