MIRAE ASSET

Building on principles

China Market Outlook - 2015

CHINA MARKET OUTLOOK – 2015

2014 OVERVIEW:

The Hang Sheng market delivered -1.20% returns YTD whereas the Shanghai Composite Index delivered around 40% returns YTD. The factors that caused variations in returns of these 2 Chinese markets were:

- Mix of Market participants: In Shanghai Composite Index 80% of the market participants are the retail individual investors, but in the Hong Kong-based China market 80% are Institutional/Global investors. The last few weeks daily trading volumes were almost at historical levels in Shanghai Composite market, showing very high retail participation.
- Due to low interest rates (especially after rate cuts and expectations of further rate cuts in 2015) and weak property markets, retail investors have switched their funds significantly to equities in the last few months. Whereas, due to various risks associated with Emerging Markets the Institutional funds got diverted to safer developed markets like US.
- After the Hong Kong-Shanghai Connect the discount premium gap has narrowed for many companies listed on Hong Kong (H Shares) compared to Shanghai Composite Index (A Shares). If the quota for Hong Kong-Shanghai Connect will increase further the premiums will still narrow down.
- The main rally driver in Shanghai Composite Index was the financial sector, mainly securities, insurance and the banks. Weights and index constituents of both these markets vary, causing variation in performance.

	MSCI China	Shanghai Composite Index	Hang Sheng Index
YTD	0.57%	39.58%	-1.20%
2 Years	1.02%	17.19%	0.93%
3 Years	6.38%	9.90%	7.99%
5 Years	-0.22%	-1.93%	1.28%
10 Years	9.65%	8.63%	5.11%

Source: Bloomberg, 15th December, 2013

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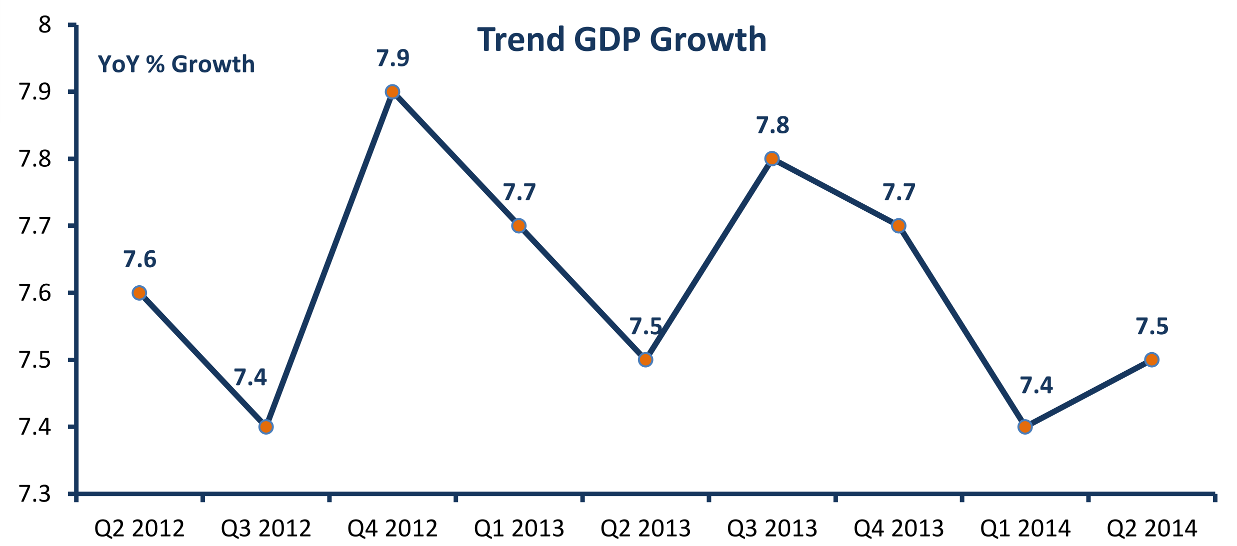
GDP GROWTH

Growth in the second quarter stood at 7.5 percent, picking up from the 7.4 percent expansion in the first quarter. Domestic demand played a bigger role in driving growth, with consumption contributing to 52.4 percent of GDP in the first half, 0.2 percentage points higher than the same period last year.

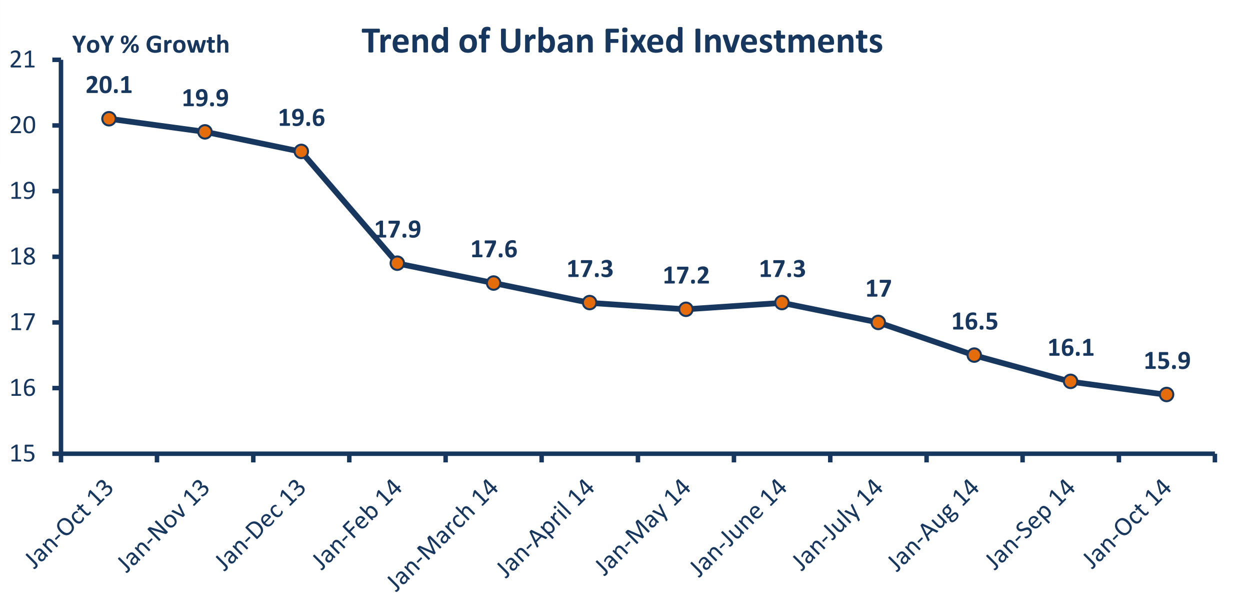


Source: National Bureau of Statics of China

Our View:

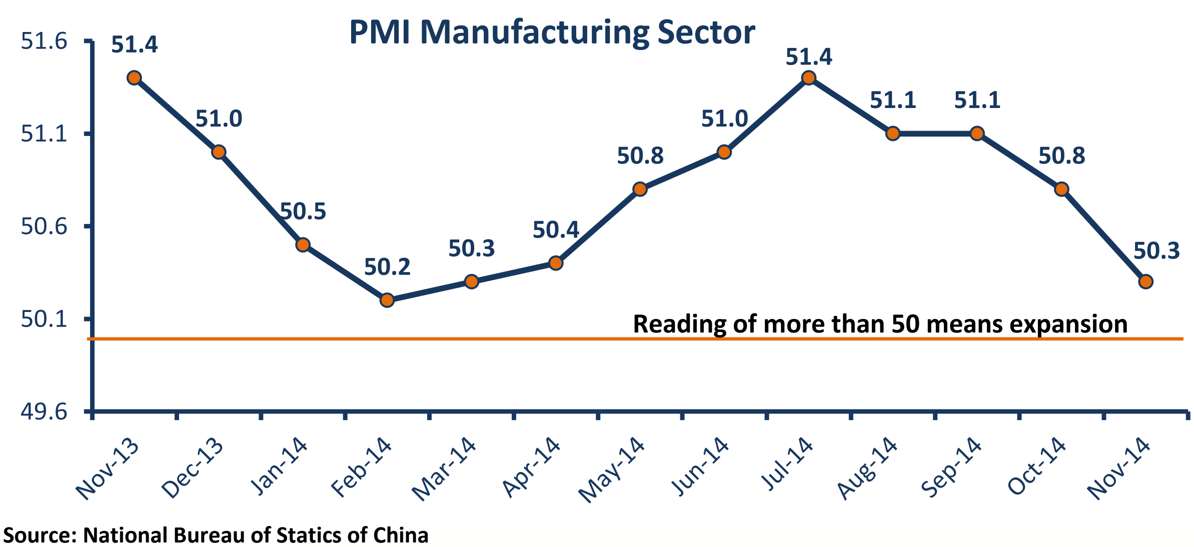
- According to market consensus, 2015 Chinese GDP growth will come down from 7.3%-7.4% to around 7% next year.
- The government has already eased monetary policy and cut interest rates once and may further ease the monetary policy and interest rates, to ensure the economy grows close to 7%.
- But lower GDP number is not necessarily negative for the markets, as seen in recent strong Shanghai market rally.

Growth in China's fixed asset investment continued to dip in the first 10 months of the year, weighed down by a cooling property sector and weak domestic demand. Urban fixed-asset investment rose 15.9 percent from a year ago to 40.62 trillion yuan ($6.62 trillion) in the first 10 months of 2014, the National Bureau of Statistics (NBS)



Source: National Bureau of Statics of China

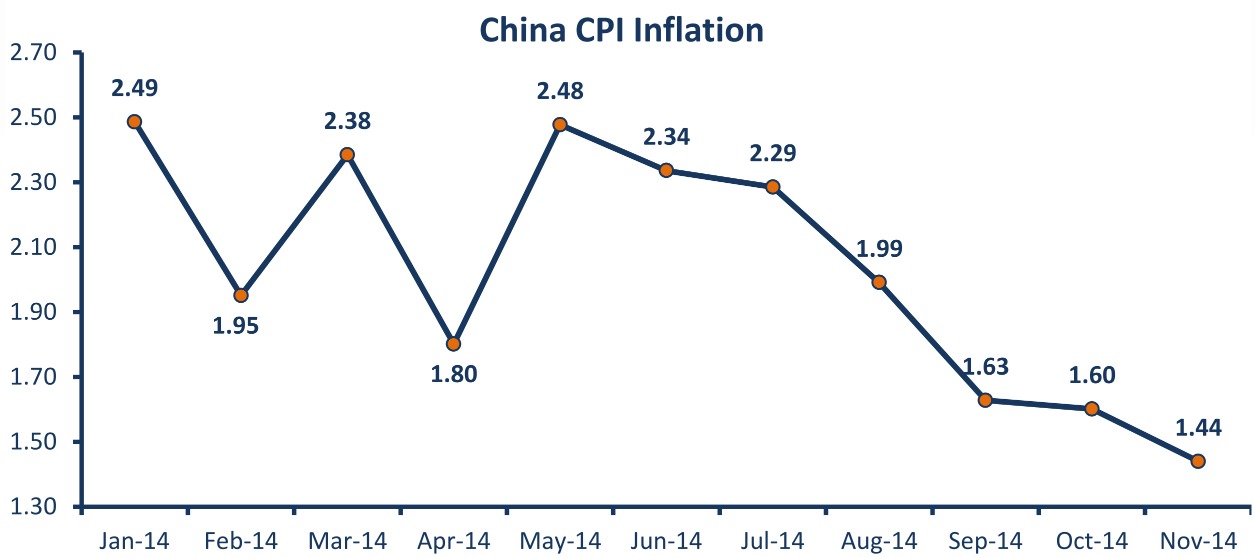
Growth in China's manufacturing sector moderated slightly in November, official data showed suggesting business sentiment remains subdued as economic growth slows. The manufacturing purchasing manager's index (PMI), a key measure of factory activity in China, posted at 50.3 in November and is at an 8 month low.



Source: National Bureau of Statics of China

INFLATION:

China's consumer prices grew by their slowest pace in five years. The consumer price index (CPI), the main gauge of inflation, rose by 1.4 percent year on year, the slowest increase since November 2009, when it rose 0.6 percent, according to the National Bureau of Statistics (NBS).



Source: Bloomberg, November 2014.

The producer price index (PPI), which measures inflation at wholesale level, dropped 2.7 percent year on year in November, its steepest fall in 18 months, the NBS said

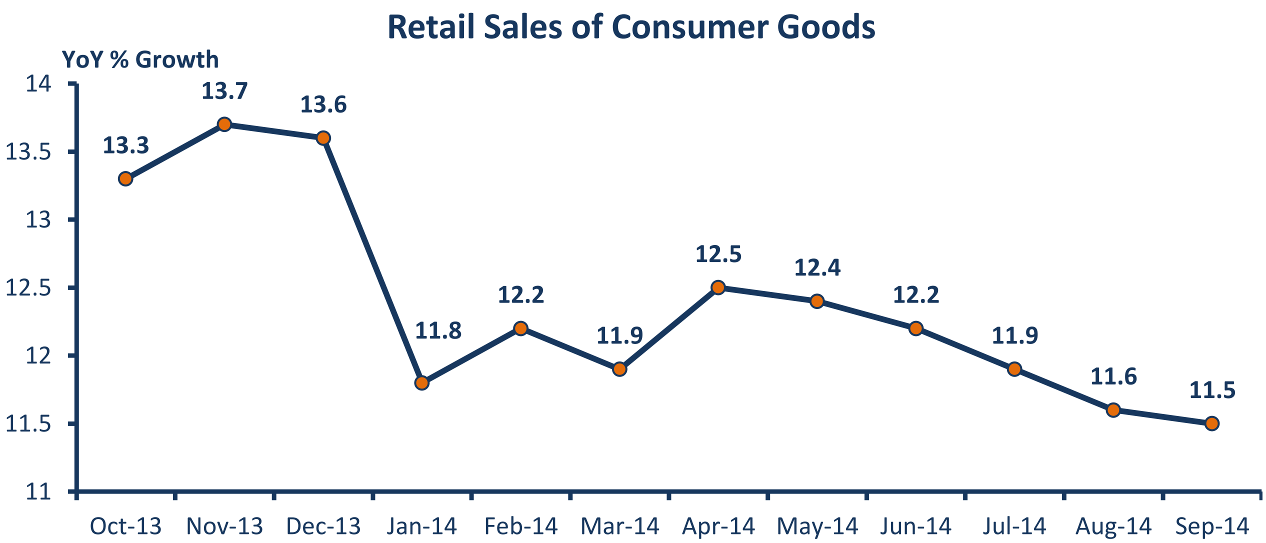
Our View

- Chinese government announced the next year bank loan quota will be around RMB 10 trillion, meaning 10% to 12% loan growth.
- Inflation this year won't play a spoil sport as we expect it to be around 2%
- Chinese government has already cut interest rates once. Market consensus is 1 or 2 times more the rate cuts along with reserve ratio cuts. This will definitely be positive for equity markets.

CONSUMPTION SECTOR:

The country's retail sales in the October month grew 11.5 percent from a year ago and continuing a slowing trend that started in June, the National Bureau of Statistics (NBS) reported. In the first ten months of the year, China's retail sales totaled 21.31 trillion yuan ($3.47 trillion), up 12 percent from a year ago.

However, Internet retail sales totalled 330.7 billion yuan in the Jan-Oct period, up a stunning 55.6 percent from a year ago.



Source: National Bureau of Statics of China

Our View:

- We expect a very stable growth in Consumption sector, which will be around 11-12%
- Consumption has become a very important theme for the China market.
- Growth in retail online sales and ecommerce is expected to be very strong; same could be close to 30% - 50% YoY.
- We see good investment opportunities in sectors like, health-care, services and e-commerce; however stock selection will be the key return driver.

GOVERNMENT REFORMS:

The reform story has been in the markets for a long time and it's still going on.

The major reforms which have proven positive and will help the economy further are

- Anti-corruption campaign is one of the most impressive moves of the government, which has resulted in short term growth blips but will have positive impact on the long term.
- Policies such as free trade zone and deregulation of state owned enterprises (SOE) have panned out gradually as compared to drastic improvements in other countries, but this gradual movement has proven to be positive.
- In China, the government is betting an expanded role for markets in everything from interest rates to energy pricing may shore up long-term growth.
- We expect more positive reforms in future times. Internally, most important catalyst for China market is government reform.

CURRENCY:

	Real (Brazil)	Ruble (Russia)	Rupee (India)	Yuan (China)	Rand (South Africa)
YTD	-12.29%	-49.74%	-2.69%	-2.26%	-10.63%
2 Years	-22.64%	-53.13%	-14.36%	0.93%	-26.69%
5 Years	-34.83%	-53.75%	-26.63%	10.31%	-36.78%

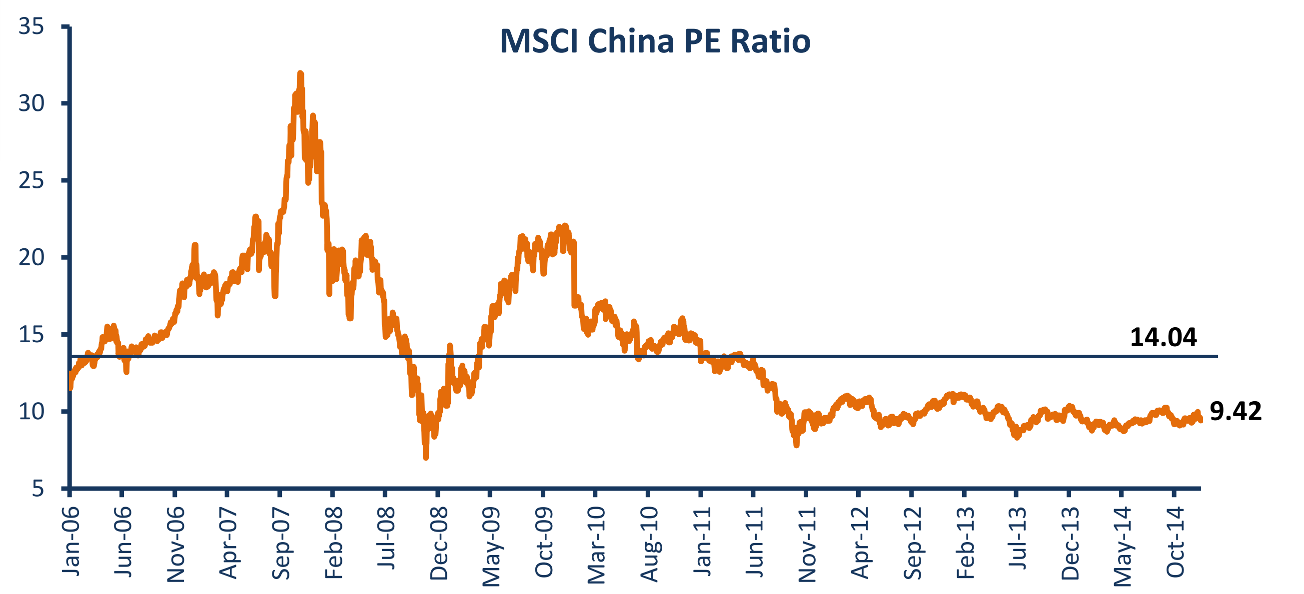
Currency movements are with respect to USD.
Source: Bloomberg, 15th December, 2014 (all numbers are absolute)

Our View:

- The foreign exchange reserves in China are quite big, hence the Yuan has remained stronger, inspite of the emerging market currency sell off recently.

- We think the government will increase the trading range and will slowly liberalize the RMB.

VALUATIONS:



Source: Bloomberg & IBES, MSCI, Morgan Stanley Research, data as on 15th December 2013

MSCI China continues to trade at the low end of its own long-run range. As on 15th December it trades close to forward P/E multiple was 9.4x (at 33% discount to the 8-year range of 14.04 times forward earnings). It has been trading between 8-10 times earnings for the last 3 years now.

- We expect the MSCI China-based earnings growth to be around 7%-8% in 2015, and by 2016 it would be around 10%.
- Earnings growth in Asia market is a little bit higher than MSCI China, because MSCI China has higher weight on big sectors like financial and energy.
- Key trigger would be the recent retail structural money flows or global asset allocation changes to emerging markets (including China) could be a very positive catalyst for re-rating of the China market.
- We are bullish about China market for the next 3-years.

INVESTMENT STRATEGY FOR MIRAE ASSET CHINA ADVANTAGE FUND:

- In sector perspective, so called 'Old industries' like construction, low-end manufacturing & mining will have difficult time by structural lower growth going forward. Their growth rates already came down to single digits and expectation is not so positive.

  But 'New industries' Consumer related, high-end technologies, IT, internet and E-Commerce still have very strong growth. These industries may grow much faster than overall economy in 2015 and they may provide very good investment opportunities in coming years.

- Portfolio composition will be closer to 70-80% Large Caps and remaining in Midcaps.

- **The 3 Key Themes:**
  - Looking at companies in High Growth Sectors ('New Industries') – Consumer, Internet, IT, E-Commerce
  - Companies benefitting from reforms in Financial & new energy Sectors
  - Evaluating China Companies which are gaining market share globally due to advance technologies.

Sectors	Views with Rationale
Financials	**We have increased our weights on this sector recently, as feel structural changes are happening in the economy, which will benefit this sector.** Financial Sector has 3 components Banks, Insurance and Holding companies and real estate/property developers. Financial has the highest weightage in the index, out of which banks have the highest weightage in the index. We have Neutral stance on Banks, but prefer Large Banks. Insurance – Overweight (Insurance is emerging industry in china which is in nascent stage and there is huge scope for growth of the sector). Property – Underweight

Energy	**We currently have Underweight Stance on Sector.** Due to sharp correction in Oil Prices, upstream E&P companies will be negatively impacted. We think the clean energy will be doing well as more and more businesses are shifting to clean & green energy. The recent fall in crude prices is definitely positive for the Chinese economy. China uses almost half size of US crude oil volumes, out of which about 60-70% of oil consumption is based on the imported crude oil, so lower crude oil price will give a positive impact on Chinese economy
IT	**We currently overweight on the sector.** We have more exposure to internet related businesses as these companies are growing and capturing market share. We are overweight on Internet stocks.
Telecom	**We currently have Underweight Stance on Sector** as we see limited growth in the sector
Materials	**We currently have Underweight Stance on Sector as** demand trend is weak
Consumer Stables & Consumer Discretionary	**We currently have slight Overweight Stance on the sector.** We believe in the consumer theme in China and we think that the consumer spending is expected to remain strong. Auto companies are stronger. We are more positive on Service Sector companies like Casino, Luxury and Travel companies.

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Mirae Asset China Advantage Fund – Product Labelling

This product is suitable for investors who are seeking*:

- long-term capital appreciation
- investment predominantly in units of MACSLEF (Mirae Asset China Sector Leader Equity Fund)and/or units of other mutual fund schemes, ETFs, that focus on investing in equities and equity related securities of companies domiciled in or having their area of primary activity in China and Hong Kong.
- Risk - High (BROWN)

***The investors should consult their financial advisers if they are not clear about the suitability of the product.**
Note: Risk is represented by:
Investor understands that their principal will be at

(Blue) low risk | (Yellow) medium risk | (Brown) high risk

The data mentioned are as on 15th December, 2014.

Mutual fund investments are subject to market risks, read all scheme related documents carefully