



China Market Outlook – 2014

2013 OVERVIEW:

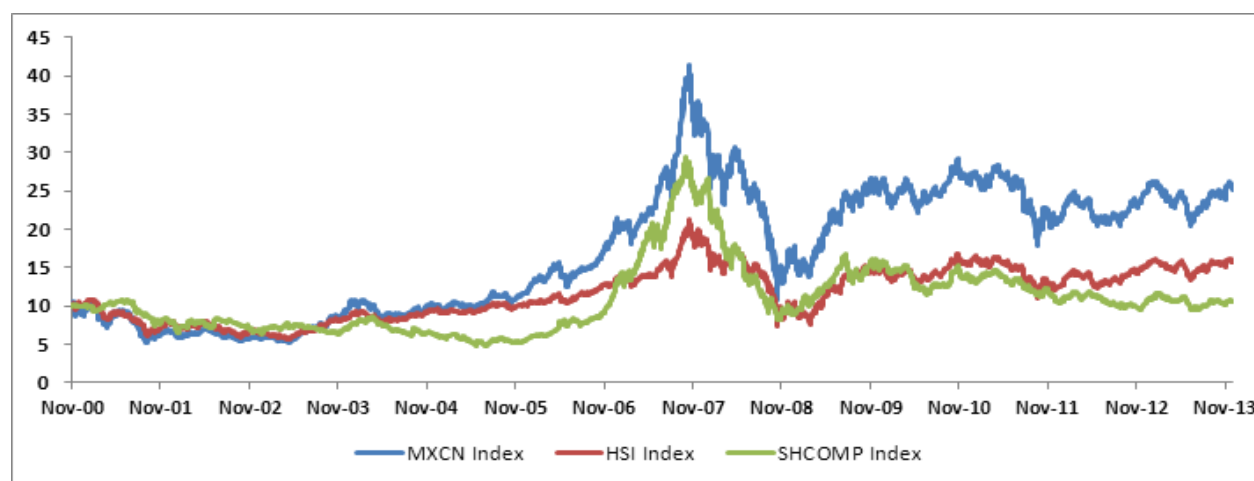
The China market has rebounded since end of June; the upward move has been about 15% from the bottom and it is the first significant move for China Markets, which have been in a range since the last 3 years. However we have seen in the past, that when China Market rallies it rallies very strongly.

There are mainly 3 reasons for the rebound;

- During May and June, there were a lot of concerns about the hard landing risk on Chinese economy.
- The improvement in economic indicators like PMI, GDP, Exports and industrial output. These numbers were better than the market expectations.
- Government Reform announcements in November buoyed investor confidence

	MSCI China	Hang Sheng	Shanghai Composite Index
YTD (Absolute)	0.89%	2.60%	-3.22%
2 Years	9.23%	12.26%	-1.17%
3 Years	-2.02%	-0.10%	-9.09%
5 Years	9.45%	9.51%	2.36%
7 Years	11.81%	6.52%	10.13%
10 Years	15.68%	9.10%	4.63%

Source: Bloomberg, 13th December, 2013



Source: Bloomberg, 18th December, 2013



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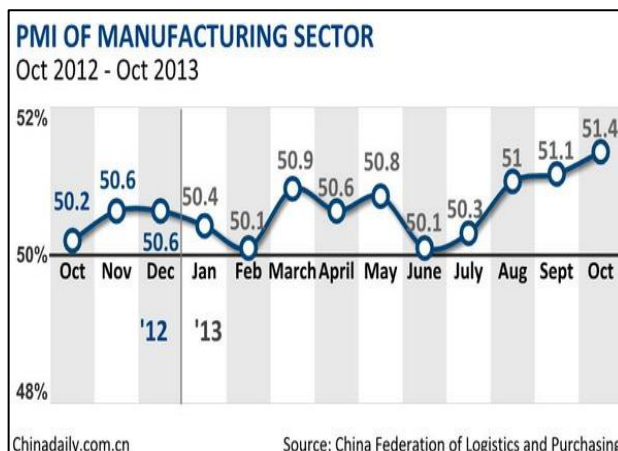
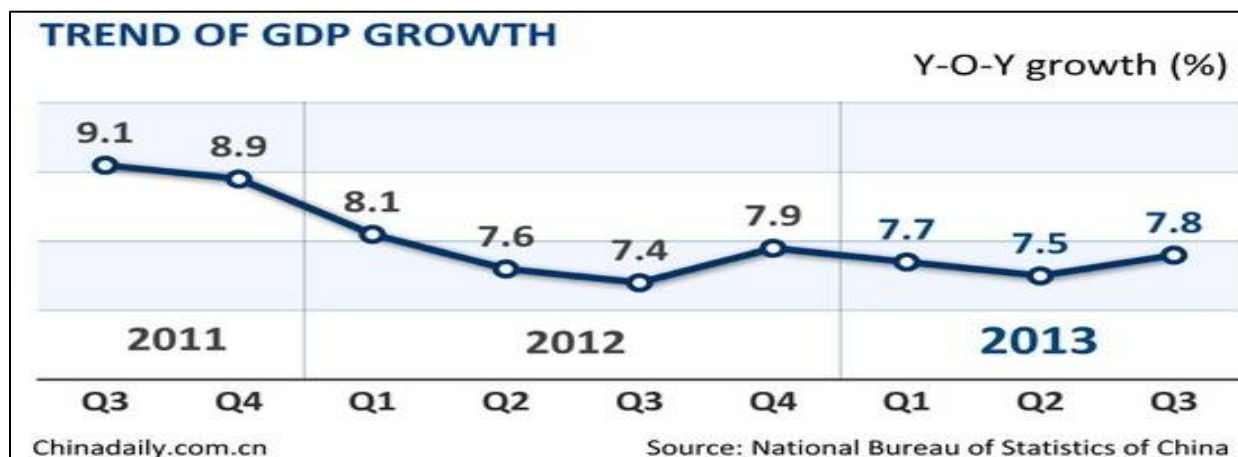
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GDP GROWTH

China's GDP growth accelerated to 7.8% in the 3rd quarter, up from 7.5% in the 2nd quarter. Growth in the first nine months stood at 7.7%, which is above China government's full-year target of 7.5%

- China's urban Fixed-Asset Investment expanded 20.1% Y-o-Y in the Jan-Oct period, down 0.1% from the growth rate in the first 9 months
- China's purchasing managers' index (PMI) for the manufacturing sector rose to 51.4 % in Oct'13, hitting a new high since May 2012
- Export Numbers are much stronger than market consensus. However Exports share to GDP has reduced.





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Our View:

- ✓ According to market consensus, 2014 Chinese GDP growth will be around 7.5%, our view it may be between 7.5-8%. The GDP number may have a positive impact from the Export side as it has shown a much better improvement than the market expectations.
- ✓ Based on recent economic indicators, China economy is in stabilizing phase with modest growth and manageable inflation.
- ✓ In 2013, Fixed Asset Investment (FAI) growth was strong, mainly driven by infrastructure and property investment. There were stable growth on consumption and export growth. In 2014, Consumption will stay at low to mid-teen level of stable growth and export will have better growth due to overall global economic recovery, but FAI will be weaker than 2013 as there will be no major govt investment.

INFLATION:



In the first 10 months, CPI growth stood at 2.6% on average, well below the government's full year target of 3.5%.

The PPI index, which measures inflation at the wholesale level, has been in negative territory for 20 consecutive months

Our View

- ✓ No major policy action such as interest rate cut or reserve ratio cut is expected from People's Bank of China (POBC).
- ✓ In regards to liquidity, as the government signaled this summer, they will continue to monitor and may intervene when needed to keep SHIBOR rates down. But this shouldn't be seen as a measure either to tighten or loosen the market.



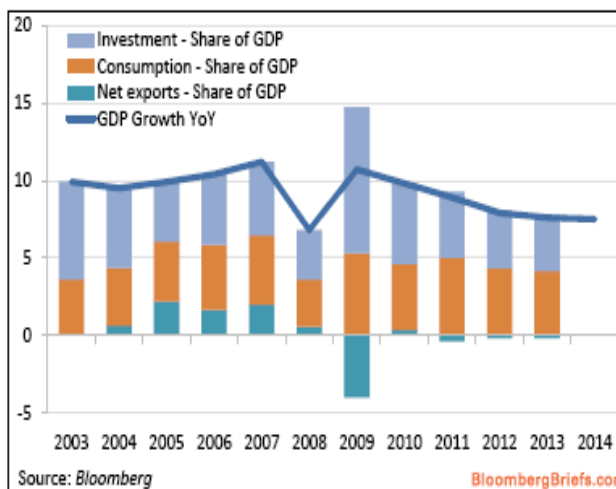
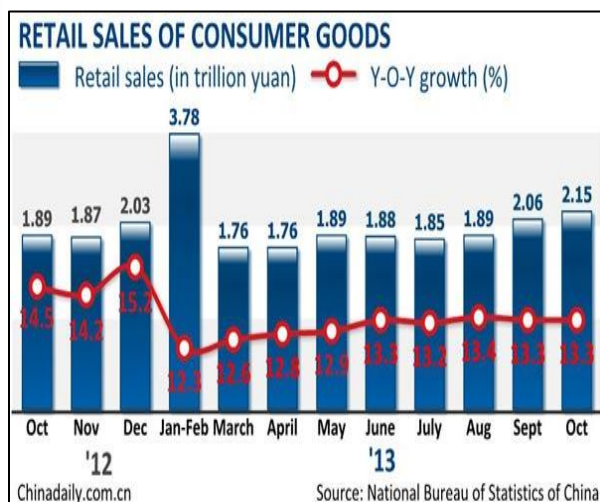
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CONSUMPTION SECTOR:

China's retail sales grew 13% Y-o-Y in the first ten months of this year. Within Consumption Traditional Retail like Hypermarkets, Supermarkets are seeing slow growth. However Autos (led by SUV's) and Services like E-Commerce may help drive Consumption.



Our View:

- ✓ Consumption has always been a very important theme for the China market.
- ✓ The retail sales gross numbers are very stable at 12-13% year-on-year gross level and we think this trend will continue even to the next year.
- ✓ But interesting trend right now is more from increase in consumption from mid-class, which is showing very strong structural trend, while some show declining trend.
 - ✓ This can be observed from strong SUV sales and strong numbers coming from entertainment side like Macau casinos and travels.



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GOVERNMENT REFORMS:

The Third Party Plenum of the 18th Party Congress was held on – November 9-12 2013. The comprehensive policy shift is billed as the most significant since Deng Xiaoping kick-started market opening in 1978.

There are four main takeaways during this meeting:

- 1) Deregulation of economic policies;**
- 2) Land reform – farmers allowed to transfer rights to property;**
- 3) Relaxation of one child policy; and**
- 4) Pricing reform in key commodities and finance.**

The market has shown a strong rally since such announcements, and especially those that are to benefit from the government policies have risen sharply.

- ✓ Deregulation of financial services – securities, insurance and mid-small banks /
- ✓ Relaxation of one child policy – dairy companies, children's good related companies
- ✓ Pricing reform of commodities – refineries
- ✓ We view that the recent rally as a relief rally following the third party plenum and the upward momentum may be sustainable in particular for those that are to directly benefit from the policy reforms. Moreover, these stocks may continue to trend upwards, as more details are announced for each of the policy reforms.

Our View:

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.

- ✓ **Internally, most important catalyst for China market is government reform.**
- ✓ **Chinese new government's reform plans were announced by many sources, but still they are very broad and lack of details. But we think more details and specific policies will be announced in coming quarters.**
- ✓ **The issue recently talked a lot in the market, Shanghai Free Trade Zone will be a key indicator of the direction of this new government's reform. It is mainly aiming more market driven mechanism and de-regulations for most industries**

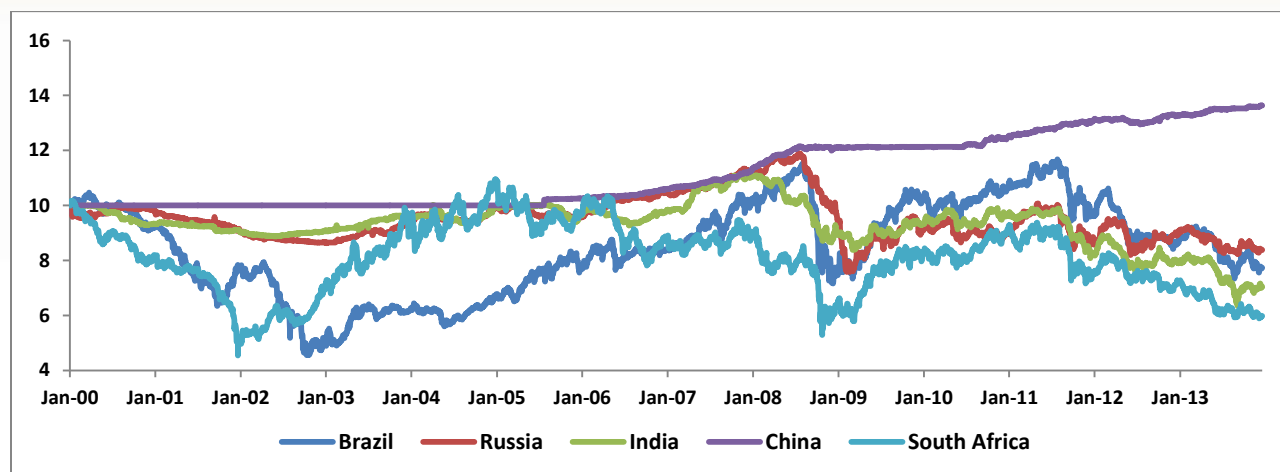


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CURRENCY:



Source: Bloomberg, 13th December 2013

	Brazil	Russia	India	China	South Africa
YTD	-11.89%	-7.03%	-11.62%	2.73%	-17.87%
2 Years	-10.81%	-1.46%	-7.87%	2.13%	-9.69%
3 Years	-9.72%	-2.18%	-9.83%	3.15%	-12.58%
5 Years	0.23%	-3.68%	-5.07%	2.38%	-0.96%
7 Years	-1.16%	-3.10%	-4.57%	3.70%	-5.38%
10 Years	2.34%	-1.16%	-3.03%	3.15%	-4.46%

Source: Bloomberg, 13th December 2013 (all numbers are CAGR)

Though China Yuan has become an important currency globally (China's yuan overtook the euro to become the second-most used currency in global trade finance in 2013, according to the Society for Worldwide Interbank Financial Telecommunication, December 2013) the trading range for the Yuan is still tightly controlled by the government.

If you see the past trend the currency has appreciated by 2-3% Y-o-Y against the USD.

Our View:

- ✓ The foreign exchange reserves in China are quite big, hence the Yuan has remained stronger compared to the emerging market currencies.
- ✓ We think that the Yuan will continue to appreciate v/s the USD in a controlled manner over the next couple of years as the government will increase the trading range. We feel the government will slowly liberalize the RMB.

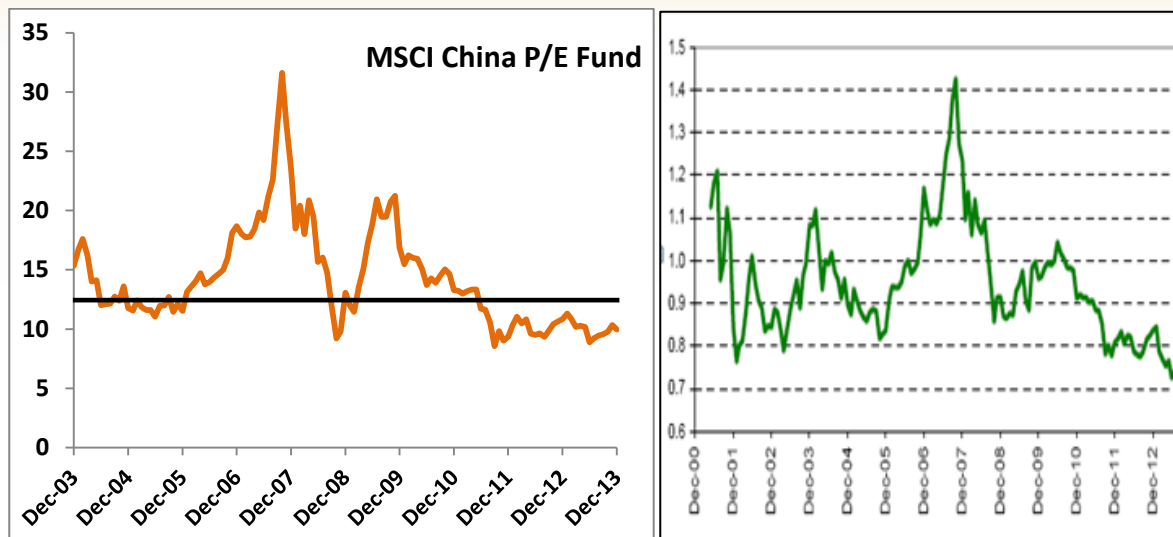


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VALUATIONS:



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 20th December it trades close to forward P/E multiple was 9.9x (at 20% discount to the 10-year range of 12.2 times forward earnings).
- MSCI China on a relative valuation to Asia Pacific Ex Japan (APxJ) stands at a 25% discount to P/E valuation. (Close to all-time lows).
- We expect earnings growth of 10-13% for the next year. China market is still very attractive in terms of valuation and trading around 9.9 times PE level.
- We are more bullish on the market for 2014, then we were at start of 2013.
- Stocks/Sectors which are expected to benefit from the reforms announced may continue to trend upwards.
- One factor other than Government Reforms that may determine the market sentiment is the U.S. economy. U.S. market has reached historical high. This is because of the strong fund inflow to the region. If the U.S economy fully recovers next year and QE tapering starts, a reversal of flow back to EM may push Chinese markets upward.



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INVESTMENT STRATEGY:

- ❑ In 2014, we will do more bottom approach rather than top-downs. GDP growth will be in similar level, so bottom-up strategy will be very different.
- ❑ 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 will grow much faster than overall economy in 2014 and they may provide very good investment opportunities in coming years.
- ❑ Portfolio composition will be closer to 75-80% 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 & Energy Sectors
 - Evaluating China Companies which are gaining market share globally due to advance technologies.

Sectors	Views with Rationale
Financials	<p>We currently have Neutral Stance on the 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 20% weightage in the index.</p> <p>We are Neutral on Banks but Overweight on Large Banks.</p> <p>Insurance – Overweight (Insurance is emerging industry in china which is in nascent stage and there is huge scope for growth of the sector).</p> <p>Property – Underweight</p>



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Energy	<p>We currently have In Line Stance on Sector.</p> <p>We think the clean energy like natural gas will be doing well as more and more businesses are shifting to clean & green energy.</p>
IT	<p>We currently overweight on the sector.</p> <p>We have more exposure to internet related businesses as these companies are growing and capturing market share. We are overweight on Internet stocks.</p>
Telecom	<p>We currently have Underweight Stance on Sector as we see limited growth in the sector</p>
Materials	<p>We currently have Underweight Stance on Sector</p> <p>Demand trend is weak</p>
Consumer Stables & Consumer Discretionary	<p>We currently have slight Overweight Stance on the sector.</p> <p>We believe in the consumer theme in China and we think that the consumer spending is expected to remain strong. Auto companies are stronger.</p> <p>We are more positive on Service Sector companies like Casino, Luxury and Travel companies.</p>

Any Key Risks?

- For 2013, there were some concerns on Chinese economy. The major risks were Shadow banking, Local Government Debt, Property bubbles, and Overcapacities in industries.
- These problems are still in the economy, but we think most of the risks are within manageable level and Chinese government is already controlling them well. We don't see any imminent risk on these issues, so we think they may not be big risks for Chinese economy in 2014.
- Main risk factor in 2014 1H will be Fed tapering. - How to exit from this policy without major market impact will be a key focus of global market next year. As we see meaningful improvement in real economies in US and EU like production, consumption and employment, if there is a faster economic recovery in next year, we expect the exit can start without any big impact




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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.
- High Risk  (BROWN)

*Investors should consult their financial advisers if they are not clear about the suitability of the product.

Note: Risk is represented as:

 (BLUE) investors understand that their principal will be at low risk	 (YELLOW) investors understand that their principal will be at medium risk	 (BROWN) investors understand that their principal will be at high risk
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The data mentioned are as on 20th December, 2013.

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