Manulife

News Release

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Hong Kong investor sentiment slides, driven down by fixed income and property – Manulife survey

- ***Expectations of higher rates hit fixed income and property while equities hold ground***
- ***RMB products popular but Shanghai-Hong Kong Stock Connect makes little impression***
- ***Occupy movement has insignificant impact on investment***
- ***Hong Kong investors expecting 8.2 per cent investment returns in 2015***

Hong Kong – Hong Kong investor sentiment dropped five points in the last quarter of 2014, ending a gradual uptick in the prior three quarters. The change was driven mainly by lower sentiment towards fixed income and property amidst expectations of monetary tightening, while the Occupy movement and the long-awaited Shanghai-Hong Kong Stock Connect scheme had no obvious impact on investment, according to the latest survey from Manulife.

The Manulife Investor Sentiment Index (MISI)* for Hong Kong fell to -10 during the quarter, affirming Hong Kong is home to Asia's gloomiest investors. The end of the U.S. Federal Reserve's quantitative easing program has created expectations of an increase in U.S. interest rates that would be mirrored in Hong Kong because of the dollar peg, thus impacting domestic competitiveness and markets at a time of monetary easing elsewhere in Asia and Europe.

"Despite the fall of investor sentiment in the last quarter of 2014, Hong Kong's economic fundamentals remain healthy. Hong Kong investors remain relatively positive on equities and increasingly keen on investing in mainland China. As China continues to open up its financial markets in multiple ways, more and more investment opportunities will become available to Hong Kong investors," said Michael Huddart, Manulife's Executive Vice President and General Manager for Greater China.

The decline heralded a reversal in investor sentiment after three consecutive quarterly improvements. Sentiment towards four of the six asset classes included in MISI declined, most noticeably in fixed income (down 12 to -2) and investment property (down 9 to -36).There were more modest declines in own home investment (down 5 to -24) and cash (down 3 to -5), while equities were slightly up by 1 point to 11 and mutual funds stayed unchanged at -3.

Since MISI started in Asia two years ago, local investor sentiment towards property in Hong Kong has remained doggedly at the bottom of the pile. In Hong Kong, the only investment less enticing than primary residence was investment property. Sixty-two per cent (of those who said it is a bad time to invest in real estate) expressed concern with overpricing of the property market.

"While the People's Bank of China and the Bank of Japan have adopted monetary easing, the US Fed is going in the opposite direction. Fed tightening is likely to push up interest rates in Hong Kong – this is the main reason that investors are negative on property in Hong Kong," said Kai Kong Chay, Senior Portfolio Manager, Greater China Equities, Manulife Asset Management. "While the Occupy movement grabbed headlines, it was more of a speed bump for investors – and when you're moving slowly, speed bumps have little impact. The interest rate cycle is more important."

Interest in Shanghai-HK Stock Connect muted as investors lack familiarity with the scheme

Of those surveyed, 38 per cent said their investment decision has been impacted by the Occupy movement. Among that group, close to 60 per cent said it has caused them to delay making investment. About a quarter (or nine per cent of total respondents) said it prompted them to invest more overseas, and just under a quarter said it caused them to sell some or all of their investments in the Hong Kong market. Overall, Hong Kong investor sentiment towards the local market as an investment theme was unchanged from the third quarter at +9.

By comparison, Hong Kong investors view investing in mainland China much more favourably (+30). The launch of the Shanghai-Hong Kong Stock Connect was a major development for the two cities' stock markets in the fourth quarter of 2014, yet, despite Hong Kong investors' underlying desire for more renminbi assets, the scheme did not really capture their interest. Only five per cent of respondents said they were highly interested, with a further 17 per cent saying they were quite interested. Three quarters of the investors ranged between being neutral and not interested in the scheme. In fact, almost two in five investors (39 per cent) who are not interested in investing through the Stock Connect cited their lack of interest in A-shares investment.

"Hong Kong investors are keen to invest in China to capture the market's growth potential. However, unfamiliar trading rules and the regulatory requirements have hindered many potential investors from participating in the A-share market and the Shanghai-Hong Kong Stock Connect," said Mr. Huddart. "Instead of taking a passive wait-and-see approach, they can consider investing in mutual funds providing access to A-shares through a professionally managed and diversified portfolio, which is an easier way to grab the opportunities arising in the China market."

Investors seek 8.2 per cent growth in 2015, but high cash holdings won't help

In contrast to their downbeat view of the market, Hong Kong investors were generally more positive about how their investments had performed over the past year. More than three quarters (77 per cent) said they were satisfied or happy with their investment performance in 2014. That compares to a regional average of 87 per cent, but is higher than in Taiwan (74 per cent) and Japan (73 per cent). Portfolio diversification (41 per cent) and properly rebalancing their portfolio (38 per cent) were cited by investors in Hong Kong as the main reasons for good investment performance.

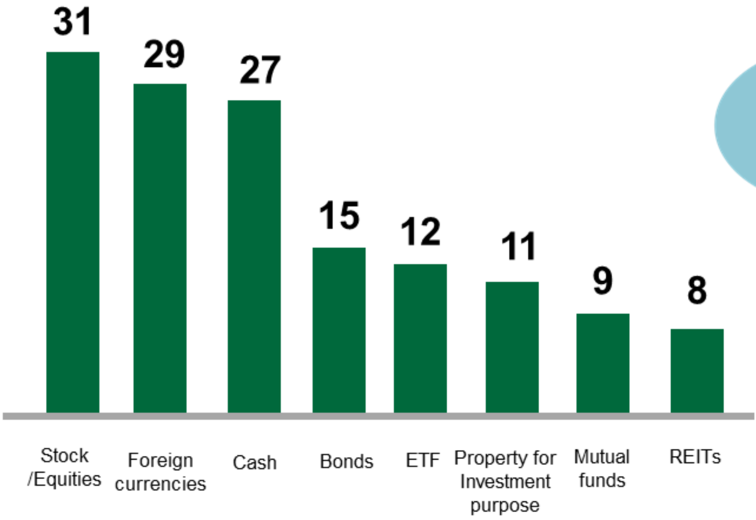
For 2015, investors are looking for average investment returns of 8.2 per cent, lower than regional expectations of 10.2 per cent.

To achieve those investment returns, about a quarter of those who currently do not have renminbi investments said they plan to invest in renminbi assets over the next six months, with about 90 per cent looking to hold such investments for more than one year. Of these, just over half said their rationale is to have greater portfolio diversification.

"Expected investment returns of around 8 per cent reflect the challenges posed by higher interest rates, the expected impact of a stronger Hong Kong dollar, and the ramifications for this market of a slowing Chinese economy," commented Steve Chiu, Vice President, Investment Funds, Manulife (International) Limited.

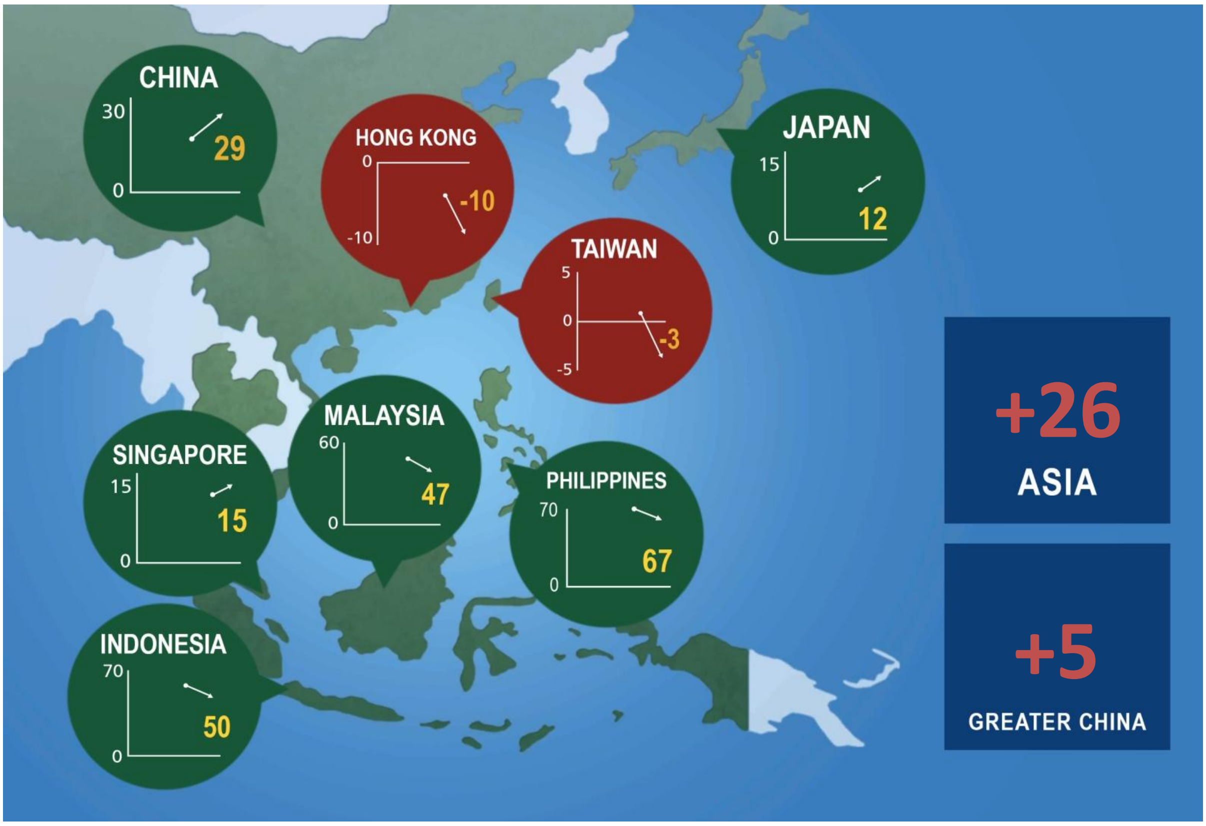
In the coming six months, almost a third of investors (31 per cent) in Hong Kong say they are looking to invest more in equities, while holdings of foreign (29 per cent) and local currencies (27 per cent) are next on the list of assets they want to invest more in. Interest in bonds and exchange traded funds (ETFs) trail a long way behind at 15 and 12 per cent, respectively.

Percentage (%) of investors that plan to invest more in the following assets/products in the next 6 months



"It's noteworthy that investors cite the impact of unexpected market events on their investment returns as the top reason they were dissatisfied with their investment performance last year. Investors should always be aware of the risks involved in trying to time markets, which are always full of uncertainties. A more balanced investment portfolio with exposure to a diversity of asset classes and geographic markets is a solution, both for risk management and reaping returns," Mr. Chiu added. "Hong Kong investors are already hoarding cash equivalent to 38 per cent of their total wealth. Increasing cash holdings – no matter in what the currency – isn't a good long-term strategy and certainly won't achieve an expected investment return of 8.2 per cent."

Investor Sentiment in Asia



For more information on the Manulife Investor Sentiment Index, please visit www.manulife.com.hk.

*About Manulife Investor Sentiment Index in Asia

Manulife's Investor Sentiment Index in Asia is a quarterly, proprietary survey measuring and tracking investors' views across eight markets in the region on their attitudes towards key asset classes and related issues.

The Manulife ISI is based on 500 online interviews in each market of Hong Kong, China, Taiwan, Japan, and Singapore; in Malaysia, Indonesia and the Philippines it is conducted face-to-face. Respondents are middle class to affluent investors, aged 25 years and above who are the primary decision maker of financial matters in the household and currently have investment products.

The Manulife ISI is a long-established research series in North America. The Manulife ISI has been measuring investor sentiment in Canada for the past 14 years, and extended this to its John Hancock operation in the U.S. in 2011. Asset classes taken into Manulife ISI Asia calculations are stocks/equities, real estate (primary residence and other investment properties), mutual funds/unit trusts, fixed income investment and cash.

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Manulife is a leading Canada-based financial services group with principal operations in Asia, Canada and the United States. We operate as John Hancock in the U.S. and as Manulife in other parts of the world. We provide strong, reliable, trustworthy and forward-thinking solutions for our customers' significant financial decisions. Our international network of employees, agents and distribution partners offers financial protection and wealth management products and services to millions of clients. We also provide asset management services to institutional customers. Funds under management by Manulife and its subsidiaries were approximately C$663 billion (HK$4,593 billion) as at September 30, 2014.

Manulife Financial Corporation trades as 'MFC' on the TSX, NYSE and PSE, and under '945' on the SEHK. Manulife can be found on the Internet at manulife.com.

About Manulife Asset Management
Manulife Asset Management is the global asset management arm of Manulife, providing comprehensive asset management solutions for institutional investors and investment funds in key markets around the world. This investment expertise extends across a broad range of public and private asset classes, as well as asset allocation solutions. As at 30 September 2014, assets under management for Manulife Asset Management were approximately US$276 billion.

Manulife Asset Management's public markets units have investment expertise across a broad range of asset classes including public equity and fixed income, and asset allocation strategies. Offices with full investment capabilities are located in the United States, Canada, the United Kingdom, Japan, Hong Kong, Singapore, Taiwan, Indonesia, Thailand, Vietnam, Malaysia, and the Philippines. In addition, Manulife Asset Management has a joint venture asset management business in China, Manulife TEDA. The public markets units of Manulife Asset Management also provide investment management services to affiliates' retail clients through product offerings of Manulife and John Hancock. John Hancock Asset Management and Declaration Management and Research are units of Manulife Asset Management.

Additional information about Manulife Asset Management may be found at ManulifeAM.com.

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