

Brexit – initial thoughts on Asia and portfolio implication

24 June 2016



The UK has voted to leave the European Union. Financial markets had not priced in such an outcome, leading to very volatile markets today. While the situation is still fluid and the exit process will take a number of years, here are our initial thoughts on what Brexit means for Asia and our portfolios.

The political and economic uncertainties as a result of Brexit may put off business investment plans, which would be negative to the fragile economic recovery. We are also cognizant of the potential volatility in the currency market as a result of global investor sentiment and fund flows.

We do not see this as a “Lehman moment”

Since the Global Financial Crisis and the European Sovereign Debt Crisis, central banks around the world have put sufficient liquidity back-stop in place precisely for events like this. We expect global central banks, including Bank of England and European Central Bank, to activate swap lines in the coming days to provide ample liquidity to the financial system.

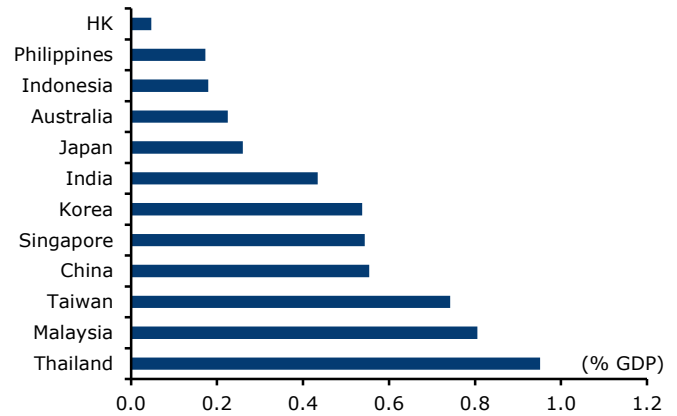
Having said that, Brexit comes at a time when global growth is weak and uncertainties over China is high. This could further reinforce existing trends towards nationalism and protectionism in Europe and globally, which is negative for global trade and growth. Politically, Brexit adds to concerns over other European countries potentially leaving the Union. All in all, we expect Brexit to be incrementally negative to the already-weak global growth environment and the already-fragile sentiment.

Direct impact on Asia is limited

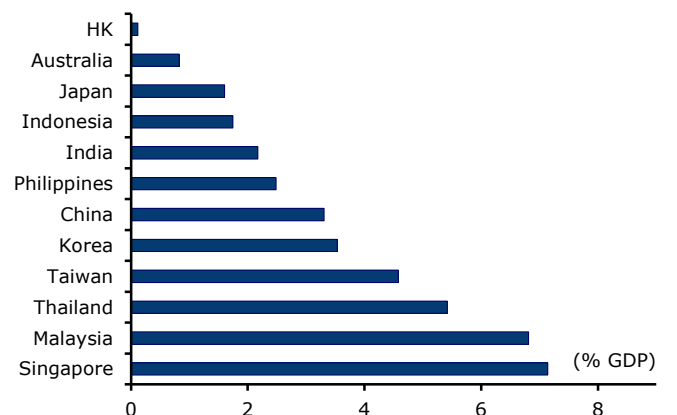
Asian economies generally have very limited exposure to the UK. Despite being the fifth largest economy in the world, its weight in Asian exports is relative low. As such, we expect Brexit’s negative impact on UK’s growth to be a small factor for Asia.

However, the EU is an important export market for Asia. Should contagion spread to continental Europe resulting in growth / EUR weakness, we could see material impact on export growth, particularly for countries such as Singapore, Malaysia, Thailand and Taiwan.

Exports to UK as % of GDP



Exports to EU as % to GDP



Source: CLSA, DataStream, CEIC
 Note: Domestic exports Hong Kong and Singapore

Our funds are positioned for a slow growth environment

We have been reiterating our view of a global growth environment that is “slower for longer” and have positioned our portfolios defensively. Key themes include internet / e-commerce, tourism, healthcare and insurance, which are high quality businesses that focus internally within Asia. From a country perspective, we favor domestically-oriented economies such as India and Philippines. We expect these businesses that benefit from structural growth drivers in Asia will outperform in the current market environment. The market will likely be sentiment-driven and remain volatile in the coming months – we will take advantage of such market sell-offs and accumulate high quality companies at distress prices.

Themes	Implication / Our view
Consumption	<ul style="list-style-type: none">• Asia’s consumption theme is based on domestic structural drivers such as demographics, credit penetration, etc.• We believe the consumption theme should provide relatively better visibility compared to the external-oriented part of Asia.
Internet / e-commerce	<ul style="list-style-type: none">• Chinese Internet / e-commerce companies have minimal exposure to Europe.• We expect the sector to continue to deliver more resilient growth compared to the rest of the Chinese economy.
Tourism	<ul style="list-style-type: none">• Our exposure to the tourism theme is through outbound tourism.• Weaker GBP and EUR may divert Asian travelers to Europe, but thesis on intra-regional travel remains unchanged.• We have holdings that benefit from both inter-regional travel (travel booking sites) and intra-regional travel (hotel, cosmetics)
Healthcare	<ul style="list-style-type: none">• Indian pharma: only 3-5% of sales from Europe• Minimal Europe exposure for Chinese pharma and regional hospitals• We expect the healthcare sector to outperform amid the risk-off environment
Insurance	<ul style="list-style-type: none">• Our insurance exposures are through Chinese and regional insurance companies• Less than 2% of their investment book is in overseas assets -> impact of 1-2% on Embedded Value

Global Offices

Mirae Asset Global Investments

East Tower 26F, Mirae Asset CENTER1 Bldg,
67, Suha-dong, Jung-gu,
Seoul, Korea (100-210)
Tel.+82-2-3774-8200

Mirae Asset Global Investments (HK)

Level 15, Three Pacific Place, 1 Queen's
Road East, Hong Kong, HK
Tel.+852-2295-1500

Mirae Asset Global Investments (UK)

4-6 Royal Exchange Buildings,
London, EC3V 3NL, United Kingdom
Tel. +44-20-7715-9900

Mirae Asset Global Investments (USA)

1350 Avenue of the Americas,
33rd Floor, New York, NY, 10019, USA
Tel. +1-212-205-8300

Mirae Asset Global Investments (Taiwan)

6F, NO. 42, Sec.2 Zhongshan N. Rd.,
Taipei City 10445, Taiwan (R.O.C)
Tel. +886-2-7725-7555

Mirae Asset Global Investments (India)

Unit No. 606, 6th Floor, Windsor Building
Off. C.S.T Road, Vidyanageri Marg.
Kalina, Sanatacruz (East), Mumbai
400 098, India
Tel. +91-22-6780-0300

Mirae Asset Global Investments (Brazil)

Rua Olimpiadas, 194/200,
12 Andar, CJ 121, Vila Olímpia
São Paulo, CEP 04551-000, Brazil
Tel: +55-11-2608-8500

Disclaimer

This document has been prepared for presentation, illustration and discussion purpose only and is not legally binding. Whilst compiled from sources Mirae Asset Global Investments believes to be accurate, no representation, warranty, assurance or implication to the accuracy, completeness or adequacy from defect of any kind is made. The division, group, subsidiary or affiliate of Mirae Asset Global Investments which produced this document shall not be liable to the recipient or controlling shareholders of the recipient resulting from its use. The views and information discussed or referred in this report are as of the date of publication, are subject to change and may not reflect the current views of the writer(s). The views expressed represent an assessment of market conditions at a specific point in time, are to be treated as opinions only and should not be relied upon as investment advice regarding a particular investment or markets in general. In addition, the opinions expressed are those of the writer(s) and may differ from those of other Mirae Asset Global Investments' investment professionals.

The provision of this document shall not be deemed as constituting any offer, acceptance, or promise of any further contract or amendment to any contract which may exist between the parties. It should not be distributed to any other party except with the written consent of Mirae Asset Global Investments. Nothing herein contained shall be construed as granting the recipient whether directly or indirectly or by implication, any license or right, under any copy right or intellectual property rights to use the information herein. This document may include reference data from third-party sources and Mirae Asset Global Investments has not conducted any audit, validation, or verification of such data. Mirae Asset Global Investments accepts no liability for any loss or damage of any kind resulting out of the unauthorized use of this document. Investment involves risk. Past performance figures are not indicative of future performance. Forward-looking statements are not guarantees of performance. The information presented is not intended to provide specific investment advice. Please carefully read through the offering documents and seek independent professional advice before you make any investment decision. Products, services, and information may not be available in your jurisdiction and may be offered by affiliates, subsidiaries, and/or distributors of Mirae Asset Global Investments as stipulated by local laws and regulations. Please consult with your professional adviser for further information on the availability of products and services within your jurisdiction.

United Kingdom: This document does not explain all the risks involved in investing in the Fund and therefore you should ensure that you read the Prospectus and the Key Investor Information Documents ("KIID") which contain further information including the applicable risk warnings. The taxation position affecting UK investors is outlined in the Prospectus. The Prospectus and KIID for the Fund are available free of charge from <http://investments.miraeasset.eu>, or from Mirae Asset Global Investments (UK) Ltd., 4th Floor, 4-6 Royal Exchange Buildings, London EC3V 3NL, United Kingdom, telephone +44 (0)20 7715 9900.

This document has been approved for issue in the United Kingdom by Mirae Asset Global Investments (UK) Ltd, a company incorporated in England & Wales with registered number 06044802, and having its registered office at 4th Floor, 4-6 Royal Exchange Buildings, London EC3V 3NL, United Kingdom. Mirae Asset Global Investments (UK) Ltd. is authorised and regulated by the Financial Conduct Authority with firm reference number 467535.

United States: An investor should consider the Fund's investment objectives, risks, charges and expenses carefully before investing. This and other important information about the investment company can be found in the Fund's prospectus. To obtain a prospectus, contact your financial advisor or call (888) 335-3417. Please read the prospectus carefully before investing.

India: Mutual Fund investments are subject to market risks, read all scheme related documents carefully.