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Press Release

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AllianzGI prefers North Asia to Southeast Asia and sees investment opportunities in the region

- *Global economy to be above consensus in 2014, boosted by a cyclical recovery*
- *Asian markets to perform better than global emerging counterparts, with North Asia preferred to Southeast Asia*
- *A slower but steady economic growth in China on the backdrop of its de-leveraging process*

Allianz Global Investors ("AllianzGI") expects Asia to remain as the engine of global economic growth with North Asia preferred to Southeast Asia. The region is also witnessing investment themes arisen from the expansion of middle class, prevalance of new energy as well as the rapid penetration of mobile internet and devices.

Raymond Chan, AllianzGI's Chief Investment Officer, Asia Pacific expects to see the global economy boosted by a cyclical recovery, against a background of moderate growth. He says: "US economic growth could surprise on the upside, with improving housing market, encouraging employment situation, recovering capital expenditure by corporates and resilient industrial profits. In Europe, central banks are likely to keep their expansionary stance for longer than expected. Peripheral countries are doing some cost adjustments in their economies."

AllianzGI is positive on Asian equities, which should perform better compared to global emerging counterparts. The recent correction in Asia equities also offers an entry point for long term investors. For Non-Japan Asia, North Asian markets look more attractive than Southeast Asian markets, given the former has stronger fundamentals, cheaper valuations and higher resilience against foreign capital flows.

With regards to Japan, AllianzGI anticipates Abe's "Three Arrows" to remain as the main catalysts for Japanese equities; while long term performance of the equity market depends on the effectiveness of the structural reforms.

For China, AllianzGI expects to see a slower but steady economic growth given the country is going through de-leveraging. "Reforms in China are beneficial in the long run, focusing on quality and efficiency of growth. The country's shadow banking is also manageable despite of its rapid growth," **Raymond Chan** notes.

In terms of investment themes, AllianzGI is seeing potential in the following areas:

- **The expansion of middle class in Asia, especially China, represents secular investment opportunities** in sectors such as tourism, gaming and aviation. As people's living standards improve, there will also growing demand for high quality education.

- Boosted by technological advancement and increasing spending power, there has been **rapid penetration of mid to low end smartphones in emerging Asia**, which promotes the usage of mobile internet services. We are also seeing some secular trends in Taiwan's technology space and favour companies with secular growth potential.

- **Consumption of natural gas in China will increase**, partly driven by favorable government.

- **Countries and sectors with exposure to developed markets** are worth keeping an eye on. For example, India has benefited from the demand recovery in developed markets through exports.

"Overall, we are seeing a higher possibility for good quality stocks to outperform the market; which provides us with a favorable environment for bottom-up stock selection. The key lies in searching for companies with strong fundamentals which are well positioned to deliver long-term growth," **Raymond Chan** continues.

Commenting on MPF investment strategy for 2014, **Elvin Yu, Head of Institutional Business, Greater China and South East Asia** says: "We are overweight in the US and Japan. Japan remains a key focus in our portfolio as fundamentals continue to be supported by a domestic cyclical recovery. But we have reduced the magnitude of overweight in Japan in recent months due to the disappointing pace in the structural reform."

"In terms of fixed income, as the Federal Reserve starts to taper the quantitative easing policy, we suggest looking for spread enhancement opportunities by investing in quality spread products which will outperform US Treasuries over time," **Elvin Yu** concludes.

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