

Pacific Mutual Reaching Out To BFM89.9 Listeners

Our continual efforts to raise public awareness about unit trust investing took us to a local business radio station, the BFM89.9, where Gary Gan, our General Manager of Business Development and Marketing, was interviewed by the station's Presenter/Journalist, Alan Bligh, on its "Late, Late Business Show – Money Wise" segment on 19 August 2009. The following are some excerpts of the interview, where Gary gave insights about investing in China, for the benefit of our Leaders and Consultants especially those who may have missed it:

BFM: What is your take right now on China's economy? Today, we saw a little glitch, a drop about 4.3% in Shanghai market. What do you take from there?

GG: Yes, today we saw a sharp fall in the Shanghai composite but if we really look at the past weeks, the index has fallen about 20%. We have just completed perhaps the first stage of this relief rally. Let us not forget that as early as March this year everybody thought the whole world was going to end... the depression, you know. People were saying; Investments, don't invest. Stay out of stocks. It was at that point when they said this, that markets started to rally. This tells you that timing is almost impossible to predict. And China has actually gone up 50% this year. If you look from the lows of 2008, the Shanghai market is actually up 72%, which is a staggering achievement. What is happening now is that valuations have reached a point where they are pretty fair in most sectors perhaps even premiums in others so people are understandably now taking some healthy profits. There are also some disappointed investors in China saying that perhaps the government should do more to prop up the local stock market hence adding to the correction. And some reports have also indicated that a lot of the mainland insurance companies and the big banks have pretty much reached their limits in terms of their equities investments, again adding to profit-taking activities. So, realistically, a little "cool down" is happening which is OK.

BFM: So, you personally feel that there should be no more propping up by the Chinese government of the market?

GG: If you look at what the Chinese government has done for the whole economy, not just the stock market, the Chinese government has stimulated the Chinese economy more than any other country



throughout this so-called great financial crisis over the past two years. In fact, their stimulus was equivalent to over 13% of GDP which is bigger than any other country. Europe is only about 1.4%. They have attacked this slow down seriously. They have implemented things on a timely manner. They do not have implementation delays like the complex political process in the US which can take months to achieve something. When they say they want to do this, they do it. And they are on target to achieve 8% growth for 2009 GDP. Don't forget, in 2009, the entire world is going to experience negative growth on a cumulative basis. This will be the first time since World War II that the entire world has negative growth because of the crisis hitting the developed western countries. So to have one country still achieving 8% growth or more, that already tells you that it is actually quite a sterling job done by the Chinese government.

BFM: You have westerners going that this whole bounce back is manufactured, it is fake and the numbers coming out of China are dodgy, you cannot trust the regulators in China. Is this just the typical western's way of saying that the Asians do not know how to do it, and they are the ones who know how to run the economy?

GG: There will always be sceptics, especially from the so-called western experts, especially during times where things are bad. I remember for Malaysia, there were a lot of western sceptics when they said we could not build the world's tallest building, host a Formula One race or build the Penang Bridge. During the 1997 crisis when Malaysia had capital controls, they said that it was the wrong thing to do, we should not do it but we did it and it actually somewhat cushioned the Malaysian

economy. The sceptics will always be there in the investment field. There will always be proponents and counter arguments. The only really fake data that I have seen that is proven to be fake is the \$65 billion fraud by Bernard Madoff and that came out from the US! No economy or no country can give you 100% clarity and transparency. If they could, the job of fund managers would be so easy. People will be making returns year in, year out because you can easily predict everything, like having a crystal ball. In this crisis, we saw so many big western companies fail; Lehman Brothers, Merrill Lynch, AIG and so on. We should at least be thankful that in these tough times there are some positive stories. It is not just China... there is also India, Brazil, even South East Asia. Indonesia is a sterling performer this year. The fact that we have somewhat stabilised, that is, we may not be getting better but at least we are not getting much, much worse, a big chunk of it is helped by the emerging markets like China, India, you know, the BRIC countries and even South East Asia.



BFM: So, for the local investors who want to invest in China, what would be the three main issues that they would face?

GG: Investors always ask the first question, how to invest and what should they invest? Should they buy a Chinese stock? Should they buy a fund that invests in China? Should they buy a property in China directly? Or should they start a business in Shanghai. So, the first question investors have to know is what is the easiest instrument to invest in – and through a China mandate mutual fund, it is one of the easiest ways.

Now, there are about 10 China themed mutual funds in Malaysia which investors can easily access. You can start with as low as RM100. You can do it right here in KL. Like many investment instruments, get your facts first. Find out more about the fund itself, who is managing it and the fees and charges. The number two issue is how much capital do investors need? Obviously, when investors buy a property in Shanghai or open a business there, it is not just money that matters. There are also rules and regulation. Investors also need to search for local contacts over there. Again, through a mutual fund for as low as RM100, investors can start an investment maybe for the next five, 10 or 15 years. The third

point is always convenience. When investors decide what they want to invest in terms of the China story, they want something that is convenient. Mutual funds are available from various channels. Investors can go to consultants who can give them face-to-face personal advice. Investors can go to the bank, that may also have a wide range of funds and nowadays there are even online fund portals where investors can even invest in China funds from the convenience of their desktops. The convenience and the access to mutual funds with the China theme is actually quite easy nowadays and it is a good start to get exposure to China.

BFM: What differentiates Pacific Mutual's China fund from other China funds?

GG: China funds specifically, just because it says China, I think that's where the confusion starts. Investors really have to look at the fact sheets or the prospectuses to find out more details. China funds from different companies will have different investment mandates. Some may buy Chinese stocks that are listed in Shanghai or Shenzhen, that is the mainland China stock markets. Some may buy stocks listed in Hong Kong. Some may buy Greater China, which is Taiwan, Hong Kong and China itself. Some may buy stocks of companies which have businesses in China. This could even be Malaysian companies listed on the Bursa. Or even be Nike, Coca Cola or Microsoft. So, the first thing investors should do when they want to invest in a China fund, there are about 10 available in Malaysia which is still not a lot but I am sure they will grow, is to first find out the actual investment mandate and ensure that it suits what you are looking for.

BFM: What is Pacific Mutual's China fund mandate?

GG: Ours is Greater China. That means, we are going to invest in stocks in three countries which are the main beneficiaries of this China story. China itself, Hong Kong and Taiwan. We also have the flexibility to invest in stocks that are listed outside this region. Let's say, a company like Nike, who suddenly in the future, has a huge chunk of their revenues being derived from China. So, China has become a key contributor. So, there is a certain flexibility in our Fund to make it not so, concentrated. Sometimes the risk of being too concentrated is that you are too narrow. If you are stuck in a very narrow mandate and if things go wrong, you could get hit but if you have a more diversified, flexible mandate, like our China Fund which actually can invest in three countries and even beyond... For example, Shanghai is down 20% today. If you actually invested in Hong Kong or Taiwan, it is still a China story, but you will not be down 20% for the past week, you see.

BFM: So, that's Gary Gan, General Manager of Business Development and Marketing at Pacific Mutual looking at the positive side of investing in China. Thank you very much for joining us here this Wednesday and we hope to have you back here again soon.

GG: Thank you.