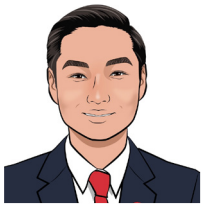
How Asia's Private Clients Can Access Technology Sector Investments Across the Globe

Two exciting trends align neatly in the form of thematic investments and technology investments. The growth of thematic investing across the world and increasingly in Asia is well documented, utilising a top-down investment approach designed to capitalise on opportunities created by macroeconomic, geopolitical and technological trends that are both structural and transformative in nature. But how should Asia's wealth management community and investors best access investments in the technology sector, and where are the best opportunities today? In terms of access, should investors be stock picking themselves or looking at the excellent opportunities through both active funds and the rapidly expanding world of ETFs? This is not just a one-way road - investors must be aware of the constant spectre of policy and regulation, for example, anti-trust in the US or some of the policy-driven announcements from China recently that have somewhat shaken investor faith. As the big picture remains bright, with technology pervading so many corners of the world's economies and our daily lives, investors without a significant allocation to technology in its many guises risk significant underperformance in the years ahead. The Hubbis Digital Dialogue focused attention on all these key trends in what was a very valuable and stimulating discussion that should help private clients and their advisors tune their technology investments to the exciting trends and themes of the future.

SPEAKERS



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SOME OF THE KEY QUESTIONS ADDRESSED:

- In the global equity markets, where are the opportunities today in technology investment, and what are the key trends ahead?
- What are the broad regional trends, and will we see major Asian, especially Chinese, tech giants rise to challenge the supremacy of the US Big Techs/FANGs?
- Stock picking is one entry route for well-informed private investors, but what about the numerous successful active funds managed by experts and the rising tide of ETFs?
- What about the rising number of smart beta ETFs, designed to give investors refined and elegant access to tech sector opportunities, especially in markets such as China, where there are many companies outside the giants that are perhaps not so well researched or well known?
- How can investors play the global technological evolution across a variety of industry sectors, for example, green energy, electric vehicles, medical/pharma/biotech, so on and so forth?
- What about the private equity assets? What role should they play in tech sector portfolios and in accessing technology opportunities at an earlier stage than the public markets?
- And how is the wealth management industry in Asia positioning itself to take advantage of these remarkable opportunities?

Don't overthink all this; the FANGs make big money, and that is why they are in such demand

An expert opened by advising investors to look at these matters realistically. The so-called FANG stocks leading the tech market boom make big money; that is why there are in such demand. They are also global and have global investor demand. "These companies are some of the most profitable companies in the world, and when you're making a lot of money and your earnings are growing so fast, and everybody wants to use your services, well, the stocks tend to go up."

He said that most tech portfolios would anchor in these stocks, even though they have somewhat unperformed in 2021 as rotation from growth to value has spread through the markets. "E-commerce is a part of our daily lives now and it's going to do nothing but grow over the next decade or so, and accordingly, I think you're in a good place, for the most part. I'm not here today to call an end to the bull market, in the United States in particular."

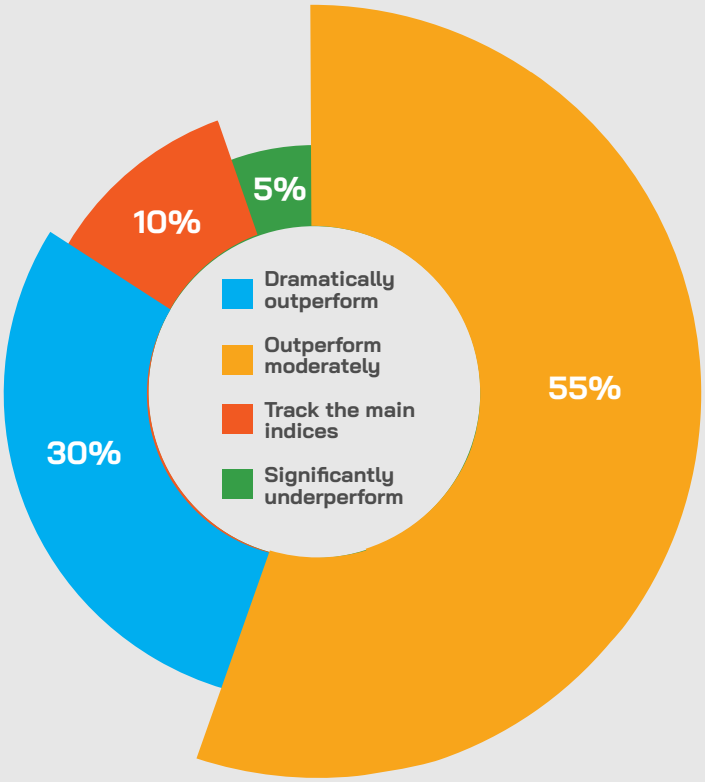
As the world embraces digital, tech stocks shine bright, especially the giant US companies

Remote connectivity for working and social lives means greater digital connectivity and that in turn means many tech stocks are shining brighter, and that in turn means technology should play a strategic role in any private wealth portfolio. A guest observed that tech will remain a structural growth area that has been accelerated by the pandemic. The themes encompass digital consumption, 5G and all that 5G enables, whether it's the Internet of Things, automation, robotics, healthcare innovation, and so forth.

"Our preference is in the US technology space, where we think that that's where most of the growth will take place," this guest said. "This is especially true as we have seen some headwinds particularly on the regulatory side for the big Chinese tech companies, and we prefer a much more nuanced approach on a stock-by-stock basis for our exposure there, and we expect limits to how much some of these stocks can actually perform there."

The Hubbis Post-Event Survey

COMPARED WITH THE BROADER MARKET INDICES OVER THE NEXT 6-12 MONTHS, DO YOU THINK TECHNOLOGY WILL :



Technology can also encompass older industries that are moving higher tech

Technology is no longer just limited to a sector, said an expert. It has permeated many other sectors, for example, the banking and financial services world. "The theme of technology is not a sector per se, but it spreads across multiple industries," he said, "and you want to be invested on a stock-by-stock basis in companies that adapt to these trends of the digital revolution. And you want to kind of avoid companies that are not able to catch up with this new trend."

Sustainability and ESG are increasingly aligned to and empowered by technological advances

This same expert added that the sustainability and ESG revolution is another theme empowered by tech, and that will play out over many years ahead. "We think that companies that adapt better and embrace the ESG factors can outperform and be much more resilient in a more uncertain world," he stated. "There are great in Asia, as many Asian economies are shifting their energy resources from fossil fuels to renewable energy, there is the coming electrification of the transportation ecosystem, urban centres will become more environmentally friendly, 5G will play a major role, these are some of the very interesting sustainability themes for investors in the years ahead."

Ladies and gentlemen, place your bets - choosing your preferred routes into technology

An expert observed that investors must choose their points of access, whether stock picking, DPM, ETFs or mutual funds, or a combination of all these. "I think of this from the perspective of asset allocation," he said, "but implementation depends on what the clients want. A lot of sophisticated clients don't want just a simple exposure to individual stocks, ETFs or even (actively managed) funds, they want to look in the area of hedge funds, for example, that specialises in the trading of technology firms, and also private equity investments that look at earlier stage technology. Private clients are looking across a whole spectrum gaining exposure in multiple ways."

Expert Opinion

RYAN LANDOLT, Senior Director, Equities Advisor, Indosuez Wealth Management

"The past week has been an eventful one, to say the least. Rather than be surprised by the recent declines in Hong Kong, however, it is imperative for investors to remember one salient fact. This is what stock markets do."

Tech investing is not a one-way street - investors need to be aware of some of the obvious and less obvious risks ahead

Key issues that might impact the growth of the technology sector for investors include regulation as a longer-term risk and racy valuations as a shorter-term factor.

Dedicated tech and thematic ETFs offer excellent and proliferating avenues into the technology sector

An expert on ETFs reported that in discussions with investors in the region his firm has identified two key trends. First, there is great interest in the large cap segment of the tech sector, where even though the Big Techs may face anti-trust issues from time to time, their size and also their status in the market also means that they can expand rapidly with M&A and diversify revenue sources. "They also have more resources to build out what we call economic moats, which is a concept adopted by Warren Buffett that basically means the ability to ensure sustained profitability and competitiveness," he commented.

He pointed to the Samsung NYSE FANG+ ETF as an example, which was launched in May, and that houses the 10 tech leaders listed in the US market, 10% each of the portfolio, and that have collectively outperformed the wider indices significantly in the past five years and that are expected to continue to do so, he said. "The [performance] demonstrates the superiority of tech leaders compared with the entire tech market, probably due to the economic moats that I have just mentioned," he explained.

The second key trend is in the intersection of technology and ESG. Tech, he said, will provide investors with long term growth, whereas ESG provides investors with a screen to avoid those companies that are not performing particularly well in terms of environmental protection, in terms of corporate governance, and to tilt the entire portfolio towards those companies that have higher ESG scores. "Institutions are driving this, but private investors are increasingly interested, especially the younger clients," he reported.

Investor appetite for smart beta ETFs has been growing apace in the region

Another trend this expert identified is rising demand for smart beta ETFs "These products tend to be quite quantitative and mathematical and therefore not so intuitive, but the smart beta elements of the ETFs can provide some potential outperformance compared with a standard index," he explained.

Asia tech is also in the sights for Asia's investors, with dedicated APAC-centric ETFs an ideal conduit

The representative of a firm with some 30 ETFs listed in Hong Kong highlighted the great opportunities on offer in the Chinese tech sector. The increasingly broad array of ETFs that his firm offers cover a wide range of technology opportunities, including more and more thematic ETFs covering, for example, healthcare technology, global cloud computing and solar photovoltaic, all of which are very heavily supported by the Chinese government in their recent 14th five-year plan.

He highlighted how announcements by China that had recently impacted the technology sector were in fact designed to help calm the market somewhat and were directed only actually at the education sector, and not intended to trickle into the other technological sectors as well. "Although policy-driven, we see this as a good opportunity to buy [China tech] on the dip, or for those investors who previously wanted to buy into various Chinese stocks, perhaps now or soon is a good opportunity to do so," he stated.

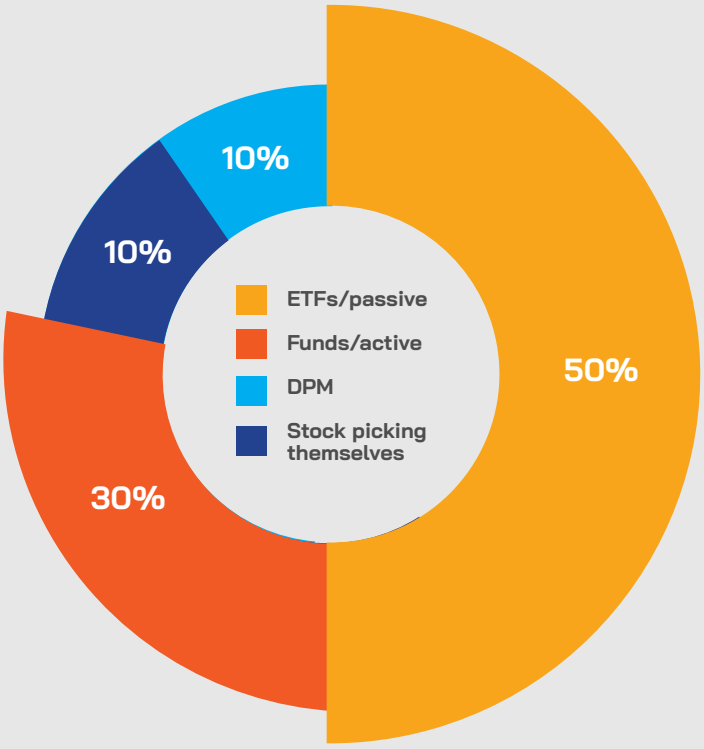
China – truly vast and offering a gigantic and growing sea of tech investment opportunities

This same expert pointed to China's 14th five-year plan rollout, highlighting the powerful government support for ESG, healthcare, EVs/smart driving, and other key themes that facilitate the country's ultimate quest for economic transition into a more domestically reliant economy, based more on domestic consumption. "If investors stick to these key few sectors in the long run, they should do just fine."

He pointed to the firm's healthcare thematic ETF, focused heavily on innovative healthcare, including high-tech medical devices, innovative drugs, and internet healthcare. "China has an ageing population problem where around 20% of the population are already above 60 years of age, and disposable income is also increasing by around 10% each year, so inevitably, the Chinese population will demand more and better healthcare services," he observed.

Another key trend they have identified is solar photovoltaic. He noted that solar companies in China

HOW DO YOU THINK ASIA'S HNW AND UHNW PRIVATE CLIENTS SHOULD INVEST IN TECHNOLOGY STOCKS?



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"Is the bull market over? For the U.S. market, I feel comfortable saying, No. Not yet. Many Americans feel like they are thriving, and post-COVID they have a lot of catching up to do on life. This bodes well for many companies."

had won roughly about 80% of the global market share, and there are many favourable policies and central support for these industries. He reported that this particular ETF was up some 25% since listing a few months earlier.

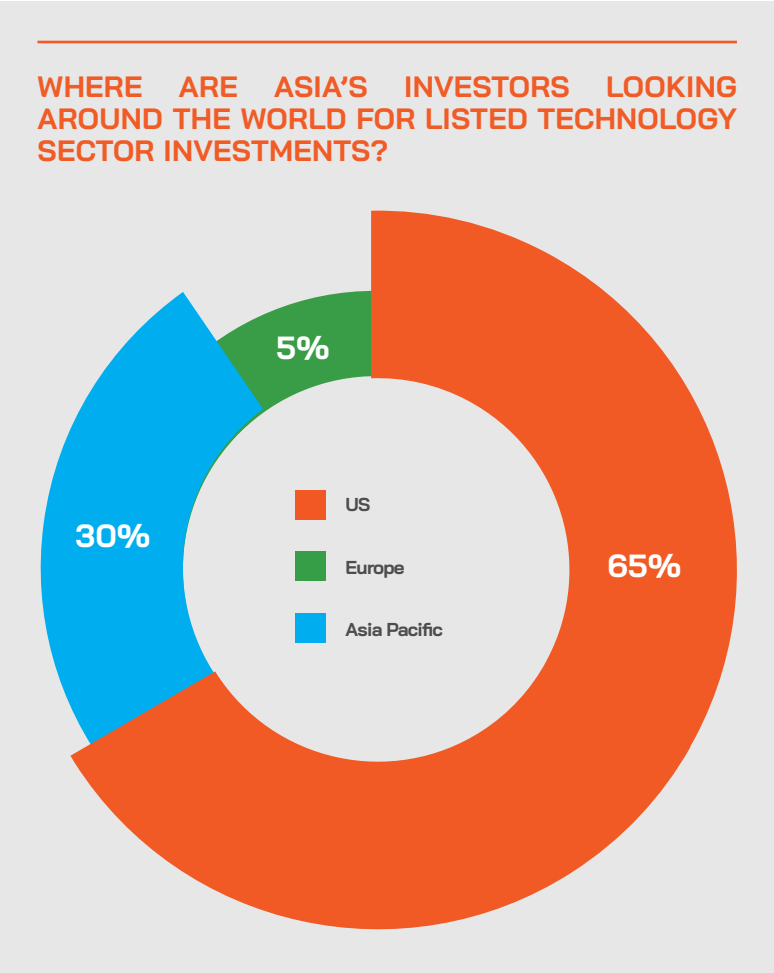
And the global cloud computing ETF the firm had launched comprises roughly 80% allocated to US tech giants and also a roughly 20% allocation into the Chinese cloud space, where he noted that growth has been especially robust, registering expansion of some 50% in 2020 alone.

But a word of caution - some believe there is a larger policy risk in China than in the US

Another expert agreed with the preceding observations but still cautioned that there is nevertheless an indication that there is a greater risk for policymakers in China than in the US currently. "I don't think that's a controversial statement; it is what it is," he said. "China is not trying to destroy its own best companies, but just you must be prepared for volatility and more so than people might have realised until very recently."

China has a long-term vision and the government stability to see that through to fruition

China's political system should allow it to realise its long-term vision through to 2035, by when the government wants to double the GDP. To achieve such ambitions, they mostly need to focus not on population growth, which will not happen, but on productivity gains, and those will be driven significantly by the technology sector. Although there will be some ups and downs along the road, he maintained that the drivers towards technology-enabled growth and development would be unerring as China evolves its economic model for the decades ahead.



But nevertheless, don't put all the eggs in one Chinese basket - diversification is advisable

A guest explained that in the nearer term, investors should be careful with regard to China due to regulatory issues driven by the central government. "It is very hard to navigate this regulatory uncertainty, so investors also want to be more nuanced and look at sectors or companies that are not at the crosshairs on regulation, as well as diversification outside China, whether the US or even in some parts of Asia, such as Singapore," he advised. "But this does create some opportunities, for example through some of the Chinese-focused hedge funds, because they have long/short strategy that can actually find alpha in such an environment; that is one way to risk mitigate in terms of the short-term volatility."

Additionally, he said that for investors with no current exposure to China, this is also a good time to start to consider the structural growth story, the longer-term technological improvements that China is driving towards, whether automation, the technological upgrades, the Green Revolution, and so forth.

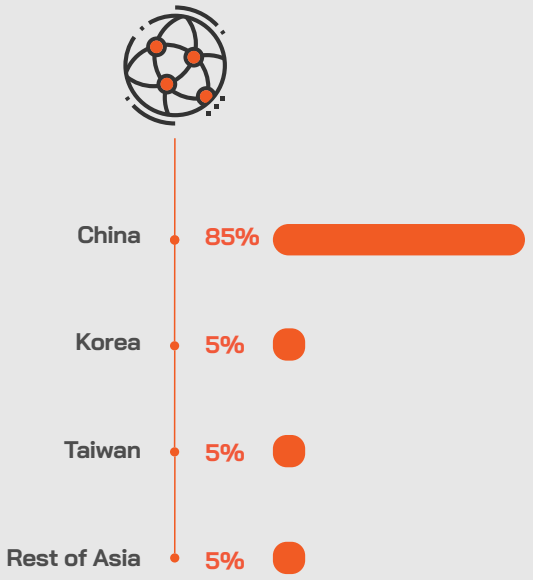
A well-structured and diversified global technology portfolio is the way forward

An expert advised the careful allocation of tech-sector investments across all the key countries, with robust allocation to the US due to the scale of the opportunities and the speed of their global growth, allocation also to China and to other fast-growth economies, as well as diversification across asset classes. He advised allocation to fixed income as well as equities and to alternative assets such as hedge funds, private equity, private credit, and even real estate. Moreover, the investor should also hold some funds ready as tactical allocations to avoid some areas that might have some headwinds, but also when the time comes to tactically return back to the sectors and increase exposure to capture some of the opportunities that suddenly arise.

There is little doubt - the US is the centrepiece of global technology investing and set to retain its crown, but don't forget Europe and try to build a global portfolio

An expert opined that the US should be the centrepiece of any investor's allocation to the tech sector, given the scale and global reach of the FANGs and the other major tech firms. Not only are the stocks gigantic, but the markets are liquid, mature, and transparent. He also advised that while the US should be the core allocation, there are some excellent opportunities in Europe, and selectively some fine companies in China and elsewhere in Asia.

WITHIN APAC, WHERE ARE THE MOST INTERESTING TECHNOLOGY INVESTMENT OPPORTUNITIES?



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"And for Hong Kong and China, I would not want to 'stick a fork in it' and say it's done. But various risks and expected returns for investors certainly need to be reassessed."

Keep an eye on new sectors and new opportunities, be agile and keep learning all the time

The same expert advised investors to also keep a close eye on opportunities that are opening up in new technologies and new sectors, and the companies emerging to exploit the potential that is opening up all the time. "But be prepared to be patient," he cautioned, "as sometimes the developments do not move as fast as the investors might hope. You still have to take a longer-term view, even in fast-moving technology. It sounds trite, as everybody says that, but it's true."

Be realistic - volatility will persist, and investors need to be able to handle that with patience and fortitude

The same expert pointed to the 3D printing phenomenon, which exploded on the scene in 2011, and since then, it has been quiet for a decade, implying that some areas will fade away in terms of interest and attention, others will simply evaporate as the technologies are rapidly superseded by new technologies themselves. "While I think a

lot of the themes that we have been talking about today and that are big in the news and in the markets now, there is a lot to be excited about as far as the future for many of those, but be careful as these areas can be volatile," he advised. "And if you can't handle the volatility, honestly, you shouldn't be investing in stocks, I'm sorry to say. The key is not to over-leverage, don't take on more risk than you can handle."

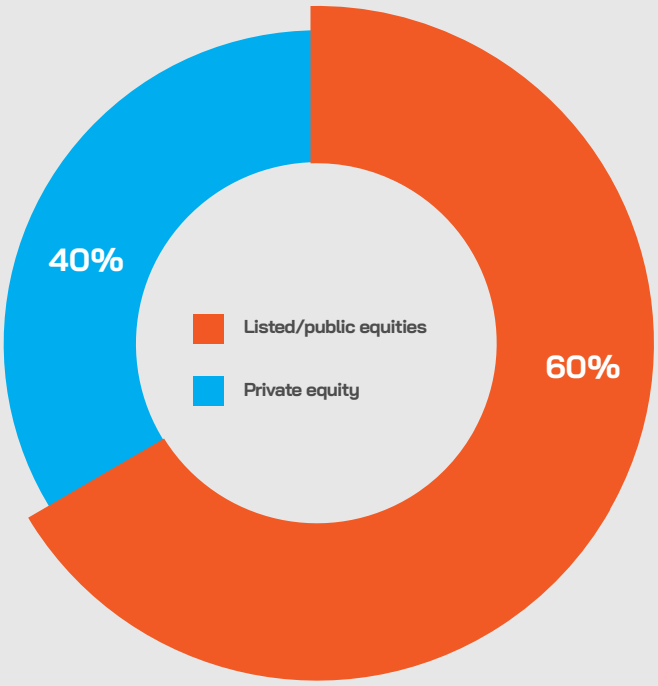
Amidst ongoing volatility, ETFs are excellent tools as core portfolio building blocks

Another expert agreed that there is constant volatility driven by policy risk and market risk. "This is an area in which ETFs can help," he said. "There is a proliferation of thematic ETFs in the market in Hong Kong, Taiwan, South Korea, and China in recent years, and they provide a nuanced exposure for investors in a specific area of technology so that you can have a precise exposure to a particular sector that you believe performs relatively well, but meanwhile that don't provide too granular exposure. Accordingly, ETFs can actually become your core tools to build the portfolio; you can use them for sector allocation, tactical allocation, or even sector rotation based on different market conditions and business cycles. ETFs can be a great tool for a volatile market."

And ETFs offer liquidity, immediacy and transparency

Another guest concurred, adding that ETFs also provide some additional liquidity, immediacy and transparency for tech sector investors, more so for example, than mutual funds or perhaps private equity investments.

HOW SHOULD SMART HNW/UHNW INVESTORS IN ASIA ALLOCATE THEIR TECHNOLOGY INVESTMENT?



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"Don't get caught up in hype. New technologies often take hold a lot slower than many investors hope. Invest in quality companies with solid and growing earnings. Avoid home market bias. Diversify. It sounds trite. But it's trite because it's true."

Hong Kong is a key ETF gateway market for capturing tech sector evolution, especially China-specific opportunities

A fellow panellist pointed to an ETF his firm had launched in Hong Kong comprising the top 30 largest tech stocks listed in the Hong Kong Hang Seng index. "Hong Kong is still one of the most favourable venues for these [mostly Chinese] unicorns and also ADRs to list," he reported. "We foresee that this index will only expand as more high-quality of companies list in Hong Kong and are incorporated into the index going forward as well. There is quarterly rebalancing, and there is something called an IPO fast entry feature, where if a Chinese tech giant reaches the market capitalisation requirement, then it will be fast-tracked into the index." ■