

Fund Flash

Manulife Global Fund – Asia Pacific REIT Fund

September 2021



China Market Update - Selloff on Chinese/HK property sector

What happened?

Chinese and HK property stocks are under pressure on (20 September 2021)¹ as investors are concerned about the liquidity issues of a leading property developer. More news flows on the cash-strapped developer that its operations could be taken over by local government or state-owned developers led to slumps in stock prices of the group and its subsidiaries.

Manulife Investment Management's Views:

On China property

- China property developers especially those with higher gearing and weak balance sheets have been under pressure since the Chinese government's efforts to deleverage the property sector.
- Pre-sales of residential projects have slowed down, partially attributable to the rising mortgage rates in China, as well as deteriorating sentiment stemmed from the uncertainties of project completions by some developers having liquidity issues and negative news headlines. In August, the top 100 developers' aggregate total presales fell by 11% month-on-month², though presales still rose 20% year-on-year².
- With weaker cashflow from incoming pre-sales proceeds and stricter deleveraging push, we **believe financial resources and solid balance sheet are critical for Chinese developers to sail through the current tightening cycle.**

On China property management companies

- The credit event news headlines have caused some selling pressure to the property management services sector. Looking at a recent credit event by a smaller scale developer in China, the projects under construction of the developer in default were ringfenced from liquidation proceedings so as to ensure project completions and protect home buyers' interests.
- While there are very limited cases for investors to refer to, **we believe the chance of a systematic risk spill-over or domino effects from isolated developer defaults to the entire property management services sector remains remote.**
- **Earnings for the property management companies in our portfolios are secured for the next 3 years on pre-sold properties where the property management contracts are already secured³.** We believe that property owners are getting more aware of the value that quality property management services can add to residential or commercial properties and will continue to demand higher quality management services.

1. Source: Bloomberg, as of 20 September 2021
2. Source: Goldman Sachs, as of Sep 2021
3. Source: Manulife Investment Management, as of 31 August 2021

Manulife Global Fund - Asia Pacific REIT Fund's positioning as of 31 August 2021:

	Real Estate sector weight	Remarks
Manulife Global Fund - Asia Pacific REIT Fund	12.04% <ul style="list-style-type: none"> • Real estate operating companies - 6.05% • Diversified real estate activities - 4.12% • Real Estate Development – 1.87% 	<ul style="list-style-type: none"> • The Fund has no exposure to HK property developers. • The Fund has 1.87% exposure to China property developers

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