

SEPTEMBER 2016

Pokémon Go – A wildly successful strategy to catch ‘em all.

What can we learn and how to make sense of this.



Pokémon Go is a smartphone game that blends the real and digital worlds, tasking players with exploring their neighbourhoods to find creatures and treasures for in-game use. This form of technology is termed Augmented Reality (AR).

What explains Pokémon Go’s seemingly inexplicable popularity?

The sum of below factors may contribute to its success.

1. Simple gameplay.

It is easy to grasp – just walk around and “catch ‘em all”. The simple game rules allow people from all generations to quickly learn how to play and have fun.

2. Moving around.

GO’s design gives players the motivation to get out of the house and move around. Studies suggest that a simple exercise like walking improves mood and reduces depression.

3. Connecting with others.

GO has a big social engagement element. For one, everyone who shows up at a location can catch a copy of the creature if they want. People will thus be motivated to share locations and engage in collaboration, rather than competitive play.

Players are also eager to share snapshots of collected creatures on social media, which helps accelerate further adoption of new players and to keep existing players interested.

The Pokémon game story also helps to fuel this fire. Millennials (aged 18 to 29) feel considerable nostalgia for Pokémon, which had its heyday while accompanying their childhood. Any other gameplay would probably not have created so much fanfare.

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Beneficiaries of Pokémon Go and how to profit from them ►►

1. Niantic, Inc. is the software developer for Pokémon Go. It started as an internal startup within Google in 2010, but subsequently spun out as an independent company in Oct 2015. Niantic does not disclose the precise ownership stakes held by its investors, which include Pokémon Co., Google and Nintendo.

Pokémon Go” has raked in \$200 million in net revenue globally in its first month, beating other top-earning games such as “Candy Crush”, according to the latest research.

Source: CNBC – 08 Aug 2016.

But it is anyone’s guess how much of the profit will feed into Nintendo’s income stream. Thus, any euphoria that we have witnessed in Nintendo’s recent share price surge is based only on “guesstimates”.

2. Retail malls and dining places

Many retail malls are Pokéstops and some are Pokémon gyms. These places have seen huge increase in foot traffic and sales, especially in restaurants, cafes and bars. McDonald’s in Japan struck a deal with Niantic to turn its 3,000 restaurants into “gyms” where players can battle each other.

Some astute businesses have found indirect marketing using “Lures” to increase consumer awareness and sales. There are others who publicise the spotting of

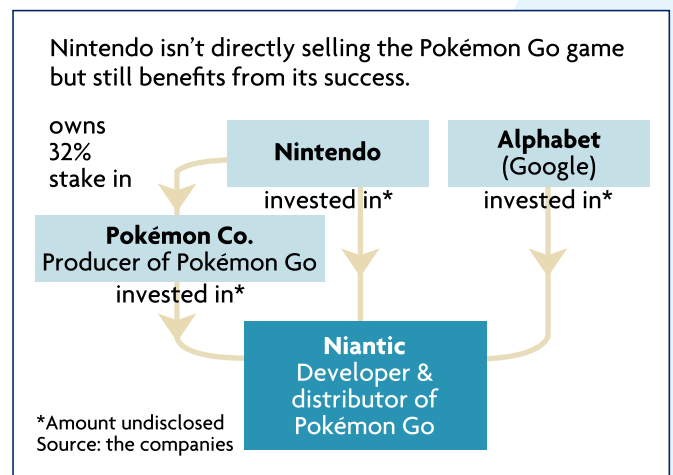
Baby Boomers as the driver for the 60’s and 70’s as Millennials are for the next decade ►►

Baby boomers is the generation of people born between 1946 to 1964. Due to the high birth rates after World War 2, this generation has generated huge economic successes as they pursue their lifestyle needs over time. Companies have spent millions of advertising budget as

Why Millennials Matter?

Big Market	Largest generation alive: 1.8 billion globally (24% of the world) – see Fig 2.
Influential	The purchasing power of this group will outpace that of Baby Boomers’ by 2018. Source: Edelman 8095® Refreshed
Unique	The first digital generation that does not know a world without the internet or smartphones.

Fig 1: Nintendo share in Niantic



Source: The Wall Street Journal, 13 Jul 2016

rare Pokémon in the vicinity to promote visitors from outside the neighbourhood.

3. Organise Pokémon Go meetups

Match-making firms from various countries are organising meet-ups where people get to meet prospective partners in the event.

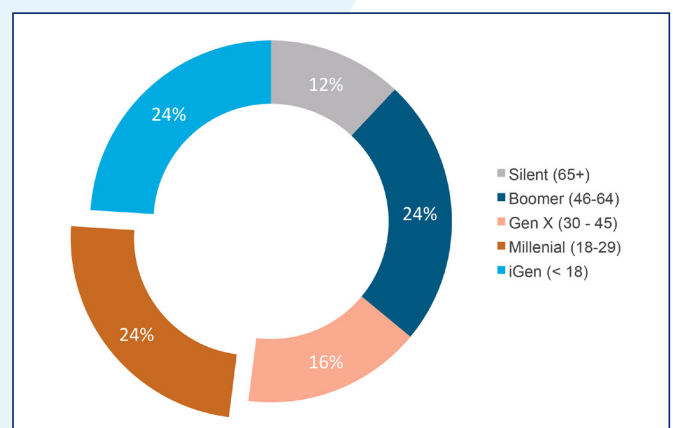
Event organisers get to make money by offering the chance to interact with other singles in this social gathering.

In summary, money can be made. That said, many of these investments cannot be easily monetised.

they followed this generation through their different life stages. Items like fashion clothes, recorded music and even TV programmes were driven by this huge and influential consumer market segment.

Today, another group of consumers is influencing the way businesses engage customers. This group is the **Millennials**. This has already caught the attention of first movers and has generated success in companies like Uber, AirBnB and Alibaba.

Fig 2: Population breakdown by generation



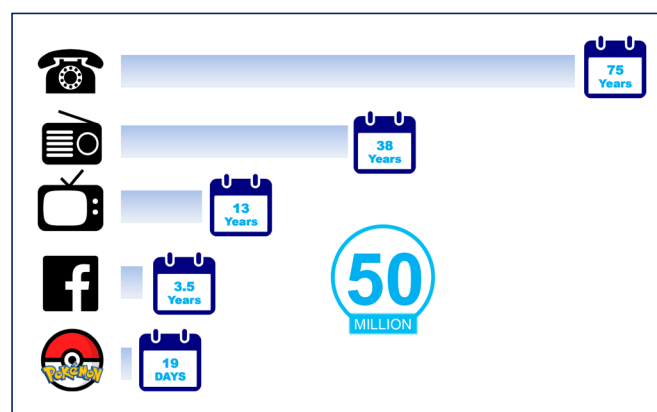
Source: Nielsen Pop-Facts, 2013

The speed of adoption of technology (and consumer goods) amazes business executives. There is no way any company in the past could acquire such a large consumer base and mindshare in such short time.

For example, it took the humble telephone more than 75 years to connect 50 million users. This takes years of infrastructure building and the gradual consumer needs realisation for the telephone users to reach critical mass.

Today, a phone app like Pokémon Go takes only 19 days to reach the same milestone. The process of acquiring customers is not the traditional advertisement, but through the viral social networks.

Fig 3: Adoption rate of technology zooms past at blazing speed.



Source: UOB Investment Strategy

What it means for Investors ►►

I. Types of Business Models that appeal to the Millennials ►►

Businesses that adapt to this new trend of consumers will be best suited to thrive in this changing environment. Traditional brick-and-mortar business models will have to rethink and adapt to the new world of e-commerce platforms.

Some companies, like Amazon, Uber and AirBnB are already doing so and many others are jumping on the bandwagon. Investors can research and identify companies that appeal to the below characteristics of the Millennial consumers.

1. Social media savvy and sharing their experience.

- They are big users of social media like Facebook, Twitter and Instagram.
- They use these accounts to voice opinions about brands and companies – good or bad.
- This means they will be a company's greatest advocates or worst critics in real-time.
- Their peers will in turn be influenced and the ripple effects are multiplied.

2. Mobile is vital.

- A recent study found that 18 percent of millennials are mobile-only web users, compared to about 5 percent in other groups.
- Source: www.comscore.com/Insights/Blog/Why-Are-Millennials-So-Mobile
- Widespread smartphone adoption is the trend prevalent in countries like Singapore, Malaysia and Indonesia.

3. Affinity for on-demand services.

- Growing up with access to information at their fingertips, millennials are accustomed to an on-demand lifestyle.
- They expect a seamless experience and is less tolerant if the service does not meet their requirements.

Source: www.Accenture.com/us-en/Pages/insigh-retail-trends-millennial-shopping-behavior.aspx

4. A preference for automated solutions over human assistance.

- Research shows that millennial consumers tend to abandon an online transaction if he faces a problem that cannot be resolved immediately.
- Having a good user interface and experience is critical in attracting this group of consumers.

Interesting Facts

7 in 10 Millennials think it is their responsibility to share feedback with companies after a good or bad experience with them.

Source: MillennialWeek.com

II. Region where Millennials dominate

- Asia ►►

In the two most populous countries (China and India), the Millennials group is now larger than the baby-boomers. See Fig 4.

Furthermore, IMF has identified eight “Millennial Majors” which represent countries with strong demographics for a healthy and abundant workforce. They are ranked by two factors;

- Size of Millennial population (Millions)
- Millennials as percentage of population (% of total)

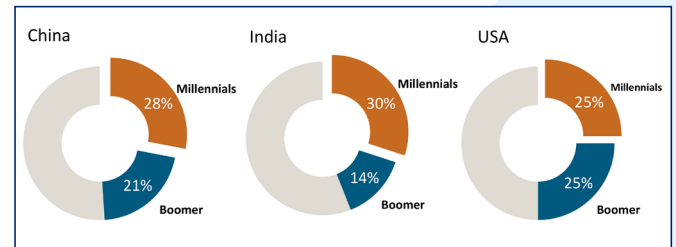
5 of the 8 countries are from Asia. See Fig 5 and Fig 6.

Asia represents the region with the most Millennials. As investors, we will have to focus on identifying opportunities in this huge consumer segment, especially in a sluggish growing world.

This means that Asia companies will stand to benefit.

- Strong and productive workforce
- Dynamic and growing middle class consumers
- Localisation of consumer needs

Fig 4: Percentage of Millennials is more than babyboomers in Asia.



Source: US Census International Data Base, 2013

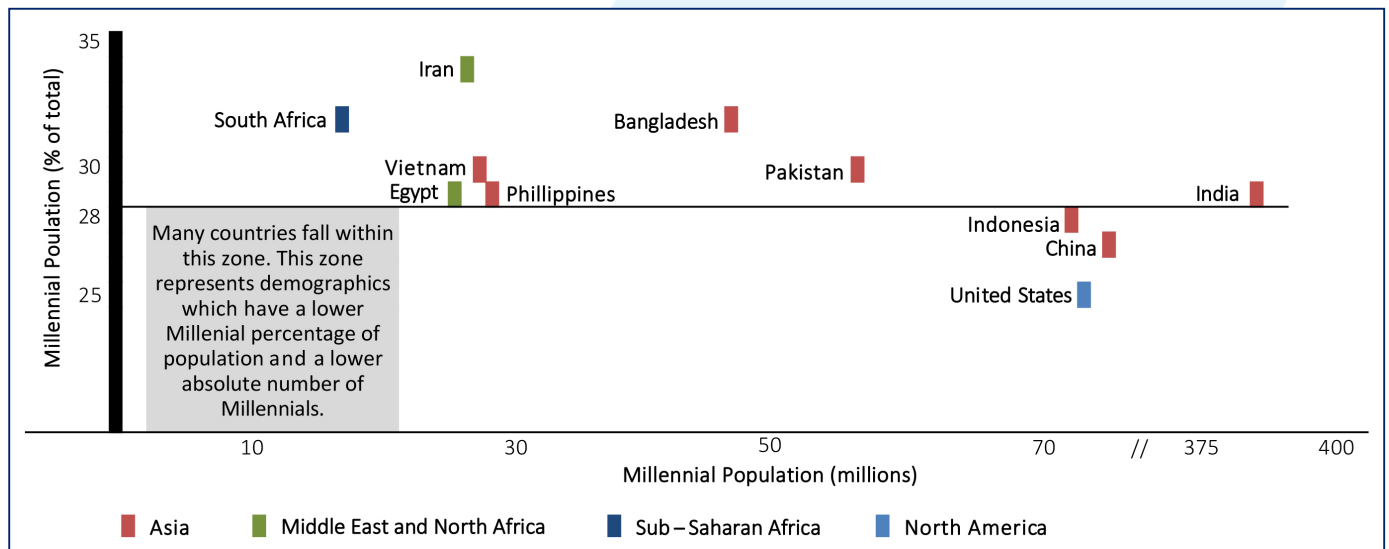
Fig 5: Eight “Millennial Majors” by region.

Countries	Region
India	Asia
Pakistan	
Bangladesh	
Philippines	
Vietnam	
Egypt	Middle East and North Africa
Iran	
South Africa	Sub-Saharan Africa

Source: IMF World Economic Outlook, 2015

Note: Indonesia, China and United States have about 75 million Millennials each. Even though they do not form the 8, the size of the Millennial populations in these 3 countries cannot be ignored.

Fig 6: Percentage of population versus size of Millennials (millions) – Asia is the region of the new generation.



Note: In bold, the eight “Millennial Majors”.

Source: UN World Population Prospects 2015, IMF World Economic Outlook, 2015

Key points

As mentioned, this segment is able of achieving very quick acceptance – **Fast growth**.

The Millennials have also just started their careers, which means that their spending power is projected to grow. They are bound to eventually overtake other segments as the most influential consumer group. – **Big potential**.

Market Review and Outlook ►►

Review of last month's call

- Last month, we advocated to continue remaining defensive, whilst shifting our focus to Asia – both in equities and fixed income.

Equity	<u>Overweight Asian equities.</u> <u>Hold</u> higher quality equities. Gradually <u>add</u> over time through regular investment scheme
Fixed Income	<u>Add</u> Asian bonds and higher quality bonds
Alternative	<u>Hold</u> unconstrained alternative investment strategies to diversify risks and therefore lower portfolio volatility
Currency	<u>Reduce</u> GBP and EUR AUD and NZD range bound Bullish on USD

Source: UOB Investment Insights – Aug 2016

Review of last month's strategy

- We focused on Asian equities in August. **Asia ex. Japan equities** delivered higher returns than U.S. and Europe.
- In the fixed income space, **Asian Investment Grade credits** continue to be sought after as investors bid up these assets.
- Major currencies were mostly range bound. However **USD** rose after Fed Chairperson Yellen remarked “case for an increase in Federal Funds Rate has strengthened in recent months” at the recent Jackson Hole economic policy symposium.

Investment Perspective - September

- This month, we feel that investors may want to focus on income-generating assets via high quality, high dividend stocks and investment grade bonds.
- The prospect looks more attractive in the Asian region.

Equity	<u>Overweight Asian equities.</u> <u>Hold</u> higher quality equities. We upgraded our equity call from underweight to neutral.
Fixed Income	<u>Continue to add</u> Asian Investment Grade (higher quality bonds)
Alternative	<u>Hold</u> unconstrained alternative investment strategies to diversify risks and therefore lower portfolio volatility
Currency	Bullish on USD

Strategy for month of September

- We tuned up our equity exposure but remain selective. Focusing on quality equities that have strong branding and good pricing power allows investors to participate in this uncertain environment.
- Asia remains a region of one of the highest growth potential. The huge segment of young and technological savvy Millennials showcases the immense opportunity to participate in this longer term demographic shift.

Asian equities and investment grade bonds are our tactical focus.

Equities

Asia ex-Japan Equities continue to be attractively valued.

- Asia ex. Japan equities trump other regions under various measures.

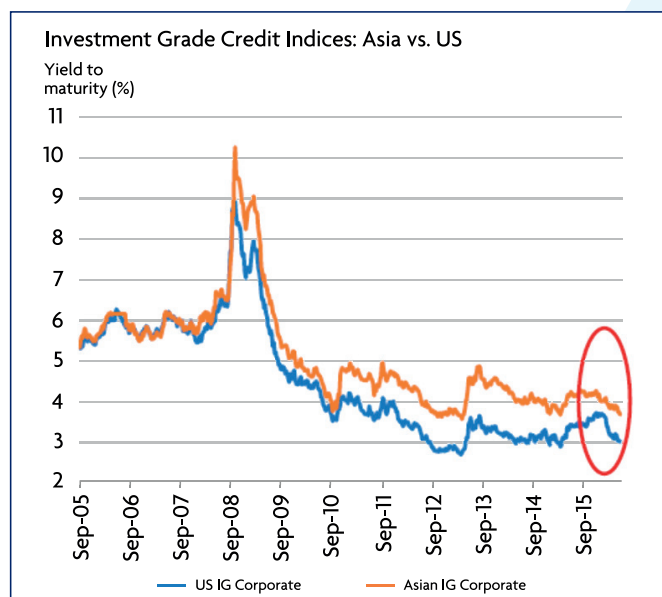
Measure	US	Europe	Asia ex. Japan
Income (Dividend Yield)	3.5%	4.4%	4.6% ✓
Valuation (Forward Price/Earnings)	18.6x	15.2x	13.7x ✓
Growth (3 Year EPS growth)	-2.3%	-3.9%	4.4% ✓
Profitability (Net Profit Margin)	12.3%	12.5%	20.0% ✓

Source: FactSet, MSCI, as of 30 June 2016

Fixed Income

Asian Fixed Income – Yield differential is the name of the game.

- Asian Investment Grade bonds are still trading at a discount to US counterparts – as shown in the credit spreads. This should give further potential gains as the spreads narrow.



Source: Bloomberg as at 30 June 2016

- In addition, emerging market bonds are also attracting investors' fund flows. However investors who are not willing to accept the inherent higher risks should consider investing in Asia high quality bonds instead.
- We stress the importance of stringent credit selection and a tactical nimbleness for this opportunity.

Currencies

Bullish on the USD.

- Fed Chairperson Yellen remarked "I believe the case for an increase in the Federal Funds Rate has strengthened in recent months".
- Reasons cited include improvements in labour utilization and expectations of moderate growth, a stronger labour market and higher inflation.
- This brings back market expectations of US rate hikes, with some speculating as early as September 2016.
- We feel that the rate hike is likely to be in December 2016, after the November Presidential Elections.
- We expect USD strength into year end, bringing USD/SGD target to 1.38.

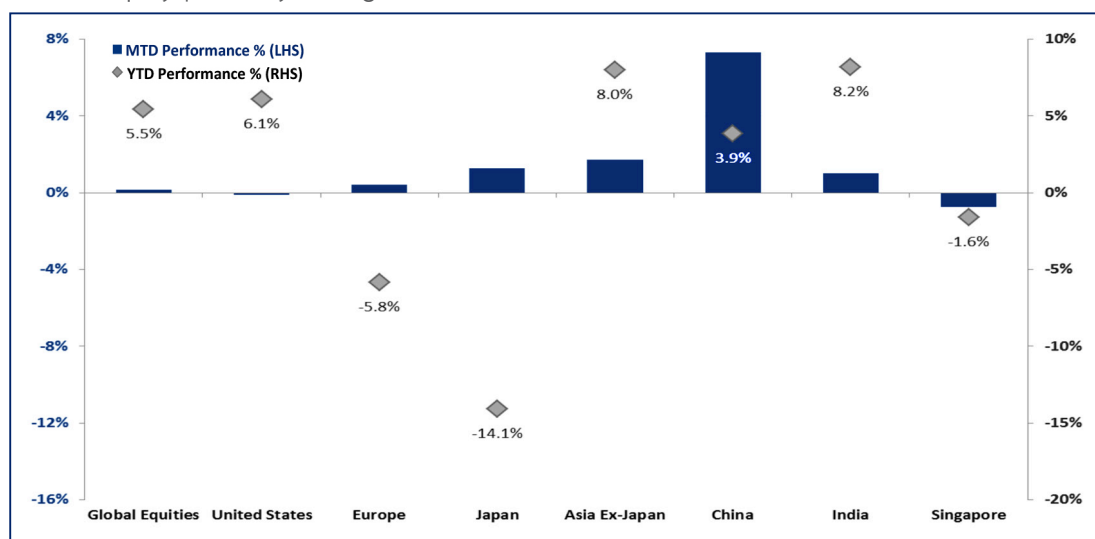
Alternatives

Unconstrained strategies help to reduce overall portfolio volatility, whilst benefiting from global macroeconomic trends

- Unconstrained strategies aim to generate positive performance in varying market conditions by seeking out opportunities in times of market dislocations or volatilities.
- These strategies tend to have low correlations to traditional asset classes like equities and bonds. This helps to diversify portfolio risks efficiently.

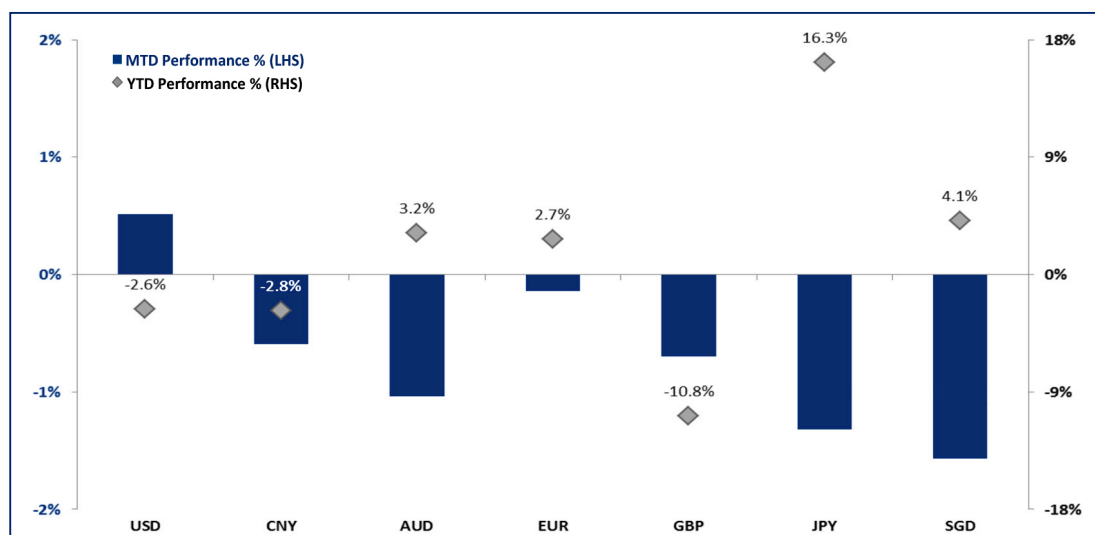
Global Markets Performance ►►

Chart 1: Equity | Country or Region



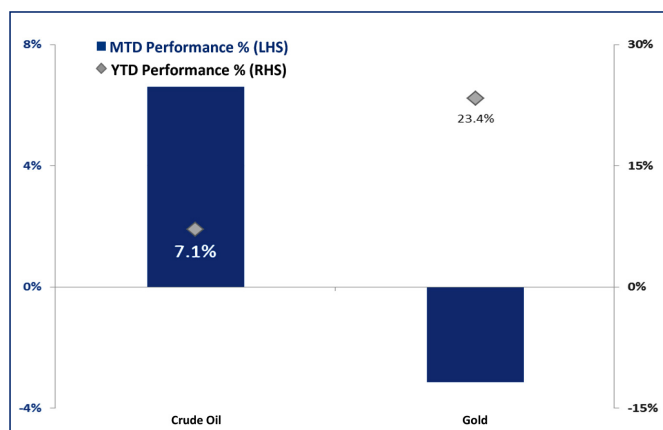
Source: Bloomberg as at 31 Aug 2016. Equity Indices all from MSCI
* 30 Jul 2016 to 31 Aug 2016

Chart 2: Currencies



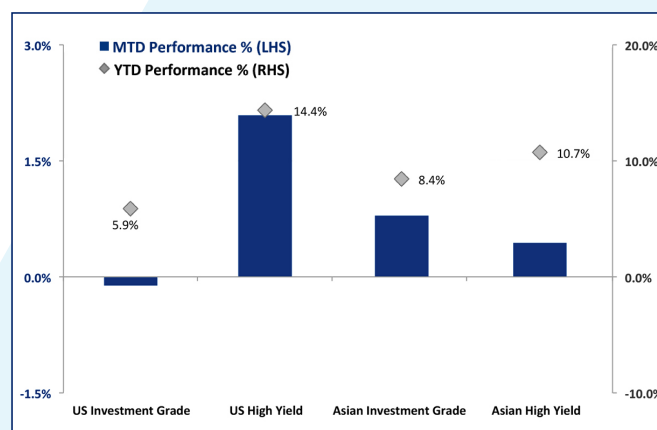
Source: Bloomberg as at 31 Aug 2016.
* 30 Jul 2016 to 31 Aug 2016

Chart 3: Commodities



Source: Bloomberg as at 31 Aug 2016.
* 30 Jul 2016 to 31 Aug 2016

Chart 4: Credit



Source: Bloomberg as at 31 Aug 2016.
* 30 Jul 2016 to 31 Aug 2016

Summary of UOB Investment Views ►►

Asset Class	--	-	N	+	++
Equities					
United States		•			
Europe			•		
Asia (Ex. Japan)				•	
Japan			•		
Eastern Europe, Middle East and Africa (EEMEA)			•		
Fixed Income					
Developed Markets Sovereign		•			
US Investment Grade			•		
US High Yield Bonds				•	
Emerging Market USD Bonds				•	
Emerging Market Local Currency Sovereign Bonds			•		
Commodities					
Gold				•	
Base Metals			•		
Agriculture			•		
Energy		•			
Cash					

Source: UOB Private Bank Investment Viewpoints, September 2016

UOB Global Foreign Exchange Outlook

FX Outlook	3Q16	4Q16	1Q17	2Q17
EUR/USD	1.09	1.07	1.06	1.05
GBP/USD	1.28	1.24	1.20	1.16
AUD/USD	0.75	0.76	0.78	0.80
NZD/USD	0.72	0.73	0.75	0.75
USD/JPY	105	106	109	110
USD/SGD	1.37	1.38	1.41	1.42

UOB Regional Asia Foreign Exchange Outlook

FX Outlook	3Q16	4Q16	1Q17	2Q17
USD/MYR	4.15	4.15	4.10	4.08
USD/THB	36.0	36.5	37.0	37.0
USD/CNY	6.70	6.60	6.59	6.62
USD/IDR	13,200	13,200	13,300	13,400
USD/PHP	47.0	46.0	45.0	43.0
USD/INR	70.0	71.1	72.2	71.1
USD/TWD	32.3	32.4	32.1	31.8
USD/KRW	1,190	1,200	1,220	1,230

Source: UOB Global Economics & Markets Research, 11 Aug 2016



Dennis Khoo
Head
Personal Financial
Services, Singapore



Chung Shaw Bee
Head
Wealth Management



Abel Lim
Head
Advisory & Strategy
Wealth Management



Kelvin Liew
CFA, CAIA
Investment Strategist
Wealth Management



Aaron Chwee
Investment Strategist
Wealth Management



Nicole Tsai
Investment
Research Associate
Wealth Management

» For 2016, we recommend investors to S.I.F.T. through a year where global transformations shape our world. «

Selective on Investment Opportunities.

We currently favour Asian equities as the region's growth continues to be amongst the highest in the world and valuations are relatively attractive. In Asia, our preference is China H-shares, India, Indonesia and South Korea.

Identify Quality and Value.

For equities, Value is preferred over Growth, as evidenced in the past tightening cycles. For fixed income, we prefer Asian higher quality Investment Grade credit over Developed Markets (DM) due to the higher yield over similar rated securities in the DM space.

Focus on a Risk-Managed Portfolio.

Be prepared for higher bouts of volatility. Build a stable core portfolio. This allows investors to stay anchored amidst the volatility.

Take note of Consensus Trades.

Momentum reversal can happen quickly. Consensus views such as the recent UK referendum that resulted in Brexit can quickly reverse and surprise the market. However, these risks can also open doors to new opportunities.



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