

PIMCO APAC Investor Sentiment Survey

Q3 2020: Asia-Pacific Findings

Behavioral science tells us that even in periods of relative calm, when it comes to making decisions, we're much less rational than we think. In periods of volatility it is even more important to keep our emotions in check, so we can make better decisions and achieve stronger investment outcomes.

To this end, this survey asks how volatility affects investors in Asia-Pacific markets: not just their portfolios, but their outlook, expectations and confidence in their own decision-making. It also asks which strategies investors think are most effective, and about the level of trust they place in different sources of information.

This is the first in what will be a regular survey of 2,500 investors with liquid assets of US\$100,000 or more across five APAC markets to gauge sentiment and outlook in challenging times.

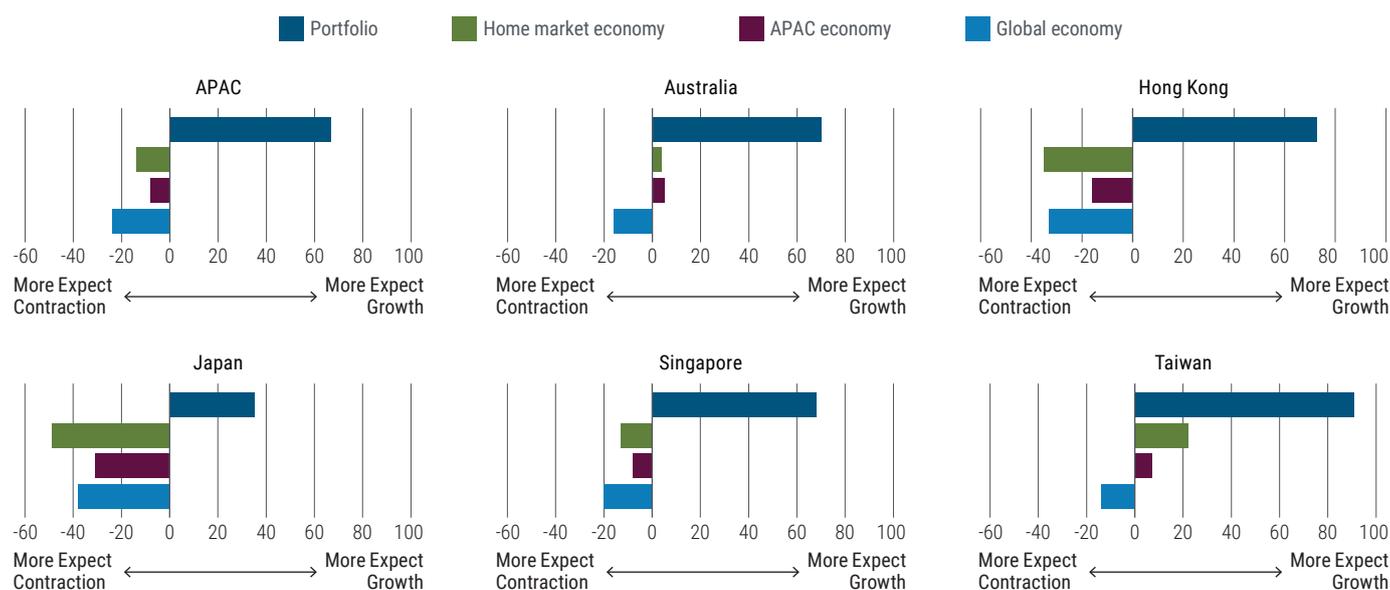
Key results of the latest survey for the APAC region include:

ASIA-PACIFIC INVESTORS EXPECT DISCONNECT BETWEEN PORTFOLIOS AND ECONOMIES TO CONTINUE

A far greater proportion of Asia-Pacific investors are confident that their own portfolios will grow in the next year than think the

same about regional and global economies. Though this is in line with the divergence between equity markets and GDP data in recent months (across the region, equities comprise an average of 42% of investors' portfolios), investors should be cautious about the influence of status quo bias.

APAC investor sentiment indicator (% expecting growth minus % expecting contraction over next 12 months. Excludes "no change" responses)



The indicator is calculated by taking the percentage of those expecting growth and subtracting the percentage expecting contraction over the next 12 months. It excludes "no change" responses

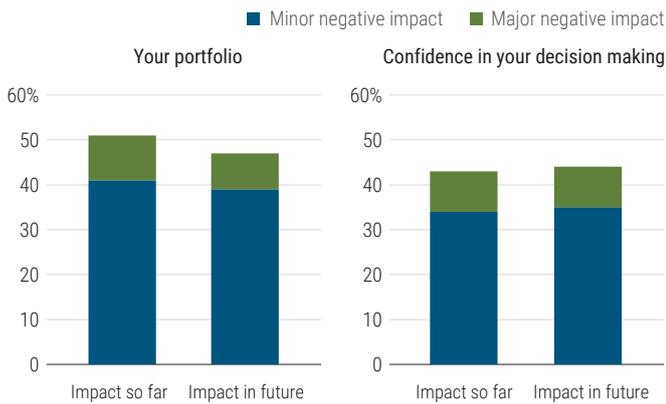
Questions asked: What are your return expectations over the next 12 months (from today) for your investment portfolio?

How do you expect your home economy/the APAC economy/the global economy to perform over the next 12 months?

COVID-19 HAS HIT PORTFOLIOS AND INVESTOR CONFIDENCE - AND WILL CONTINUE TO DO SO

Despite their optimism, the pandemic has hit investors' confidence in their own decision-making: almost half (43%) say COVID-19 has had a negative impact, and 44% expect it to continue to do so. This is probably because a majority (51%) say COVID-19 has had a negative impact on their portfolios so far, with 10% saying it has had a major negative impact. Almost half (47%) expect it to continue to have a negative impact.

Impact of COVID-19 (% respondents reporting negative impact)

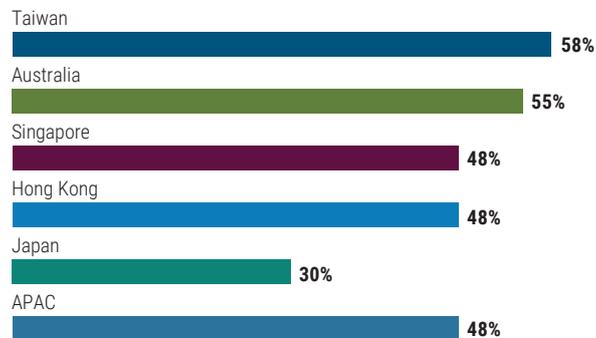


Question asked: Consider the impact of the COVID-19 pandemic so far, and going forward. How much of an impact do you think it has had, and will continue to have, on the following?

A MINORITY OF INVESTORS EXPECT TO ACHIEVE THEIR INVESTMENT GOALS IN THE COMING YEAR

Underlining the tentative outlook, only a minority of investors – 48% – are very or somewhat confident of achieving their investment goals in the coming year. There is considerable divergence within the region: some 58% of investors in Taiwan are confident of doing so, compared with just 30% of those in Japan.

Confidence in achieving investment goals in the next 12 months (% respondents very/somewhat confident)



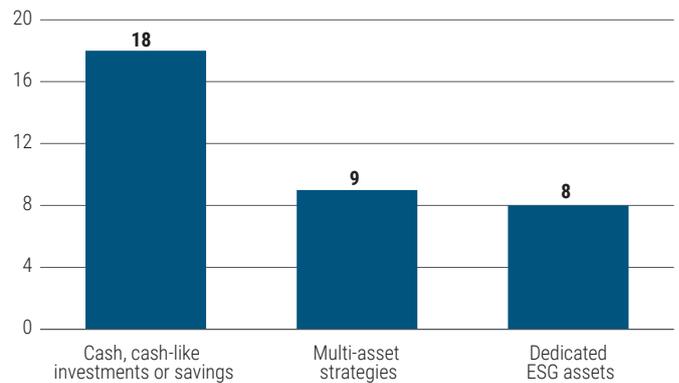
Question asked: How confident are you that you will be able to meet your investment goals over the next 12 months?

ASIA-PACIFIC INVESTORS SET TO SEEK CASH IN NEXT THREE MONTHS

Our Asset Outlook Indicator takes the proportion of Asia-Pacific investors intending to seek greater exposure to assets in the coming three months and subtracts the proportion looking to reduce exposure. It shows that cash, cash-like investments or savings; multi-asset strategies; and environmental, social and governance (ESG) assets are the top three most in-demand assets – with cash and cash-like assets some way in the lead.

Our survey shows that across the five markets, investors' demand for greater exposure to dedicated ESG assets in the coming three months lags only that for cash and multi-asset strategies. Through the COVID-19 crisis, only a minority of investors (13%) sold dedicated ESG assets, while 21% bought more.

APAC asset outlook indicator: Top three most in-demand assets (% respondents expecting to buy assets in the coming three months minus % expecting to sell)



The indicator is calculated by taking the percentage of those expecting to buy and subtracting the percentage expecting to sell over the next 3 months. It excludes "no change" and "don't know" responses

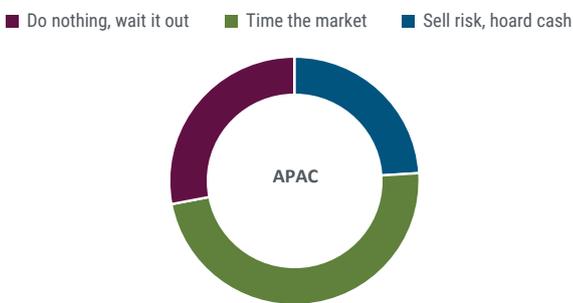
Question asked: Look forward to the next three months. How do you expect your exposure to the following assets to change?

ASIA-PACIFIC INVESTORS SEE OPPORTUNITY IN ADVERSITY

Despite cash being in demand, almost half (48%) of Asia-Pacific investors feel the best strategy in periods of market uncertainty is to try to time the market to buy risky assets as they get cheaper or seem more likely to grow quickly in the new environment. Less than one-quarter (24%) claim selling risk and hoarding cash is the best idea in periods of market stress, suggesting a discrepancy between theory and practice.

Though there is no perfect answer, investors should be wary of succumbing to various biases that might affect their decision-making, especially in times of volatility.

Favored strategy in periods of market uncertainty (% respondents, APAC)



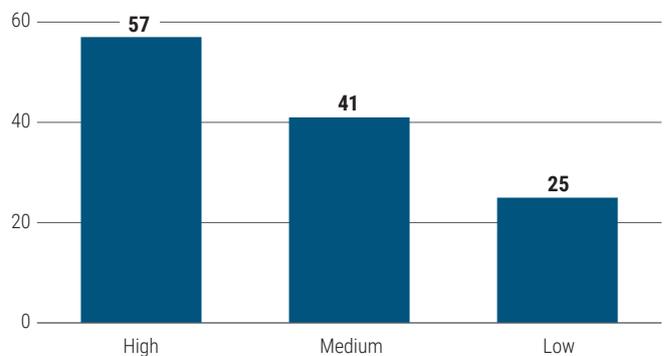
Question asked: Which of the following do you feel most strongly is the best course of action in periods of market uncertainty? Data show % respondents selecting from one of three choices

RISK PROFILE AFFECTS LIKELINESS TO REBALANCE PORTFOLIO

Across the region, some 42% of investors say they are very or somewhat likely to significantly rebalance or reallocate their portfolios in the coming three months. While there are some variations between markets (Singaporean investors are most likely to do so and Japanese least likely), on average risk tolerance is a telling indicator of likeliness to rebalance.

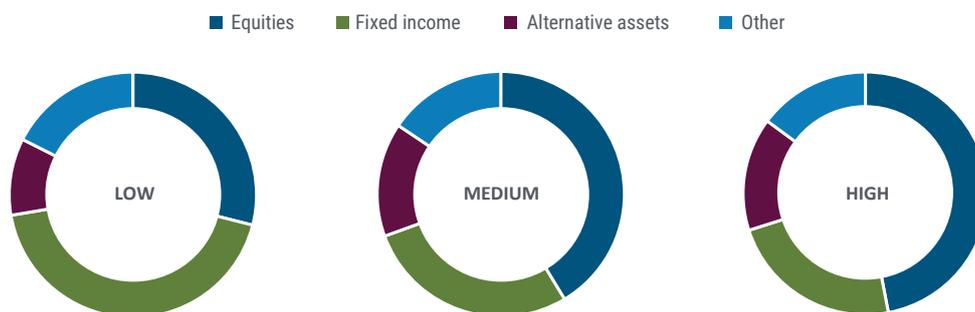
Across the region, only 25% of those who identify as low-risk (i.e. they are uncomfortable with any volatility in the value of their investments) say they are likely to rebalance, compared with 57% of those with a high risk tolerance.

Likeliness to significantly rebalance/reallocate portfolio in coming three months (% respondents answering very/somewhat likely, segmented by risk profile)



Question asked: In the next three months how likely is it that you will take the following action? Significantly rebalance or reallocate your investment portfolio

Average portfolio allocation (% asset class, segmented by risk profile)



Question asked: In the next three months how likely is it that you will take the following action? Significantly rebalance or reallocate your investment portfolio

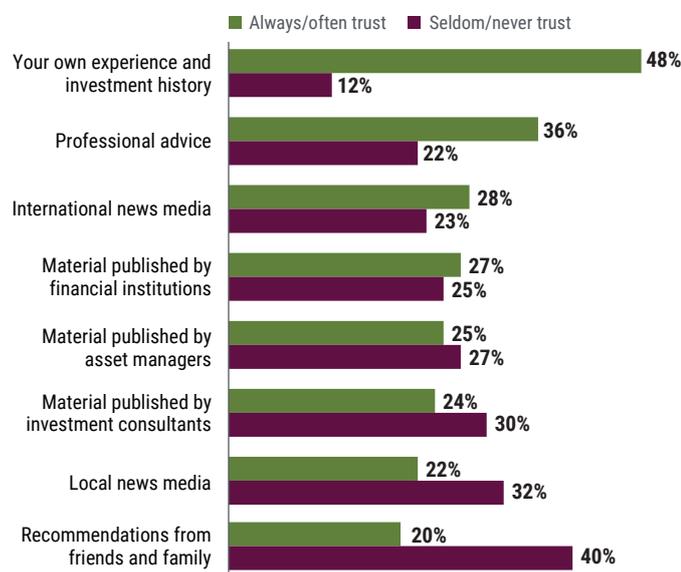
The survey shows those with low risk tolerance are more likely to be more heavily exposed to fixed income assets (43% of portfolios, compared to 23% among investors with a high risk tolerance).

ASIA-PACIFIC INVESTORS STILL TRUST THEIR OWN INSTINCTS

Despite the COVID-19 pandemic hitting many APAC investors' confidence in their own decision-making, they continue to trust their own history and experience most in making investment decisions - above professional advice and information from international news media.

Most distrusted and seldom used in investment decision-making are family recommendations and local news, perhaps reflecting awareness of the need for impartial information sources during the pandemic, and of the need to counteract possible biases affecting decision-making.

Most and least trusted information sources (% respondents, APAC)



Question asked: Which sources of information do you trust and use in your investment decision-making? Responses selected from Always/Often/Sometimes/Seldom/Never. "Sometimes" responses omitted.

ARE ASIA'S YOUNGER INVESTORS OVERCONFIDENT?

Younger investors in Asia-Pacific markets are more likely than their older peers to always or often trust and use their own experience and investment history when making investment decisions, even though the older group by definition is likely to have more experience to draw on.

Investors should be aware of succumbing to biases that may influence their decision-making, especially if they have not had experience of investing during periods of extreme or extended volatility.

Information sources: own experience and investment history (% respondents, segmented by age group)



Question asked: Which sources of information do you trust and use in your investment decision-making?

METHODOLOGY

This survey was conducted online within the Australia, Hong Kong, Singapore, Taiwan and Japan markets from August 7 through August 25, 2020, among 2,500 adults (500 in each market) aged 25 and older. All respondents had over US\$100,000 in investable liquid assets and at least some experience with investing beyond their pension and superannuation accounts. This online survey is not based on a probability sample and therefore the theoretical sampling error cannot be calculated.

WHY BEHAVIORAL SCIENCE MATTERS

As our survey highlights, investors' expectations, actions and intentions may not always be consistent. Examples of this include investors expecting portfolio growth amid shrinking economies, and seeking cash but claiming the best strategy is to time the market. This underlines the importance of behavioral science and being aware of possible biases affecting decision-making.

At PIMCO, we are always striving to give our clients an edge and achieve the best possible outcomes. We have long believed that behavioral science can make us better investors and help our clients make better investment decisions. Classical economic theories assume that we make decisions in a rational manner. But, behavioral science tells us that when it comes to making decisions, we're much less rational than we think. Understanding these key concepts in behavioral science can help investors keep their emotions in check, make better decisions and achieve stronger investment outcomes.

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VOLATILITY (ESTIMATED)

We employed a block bootstrap methodology to calculate volatilities. We start by computing historical factor returns that underlie each asset class proxy from January 1997 through the present date. We then draw a set of 12 monthly returns within the dataset to come up with an annual return number. This process is repeated 25,000 times to have a return series with 25,000 annualized returns. The standard deviation of these annual returns is used to model the volatility for each factor. We then use the same return series for each factor to compute covariance between factors. Finally, volatility of each asset class proxy is calculated as the sum of variances and covariance of factors that underlie that particular proxy. For each asset class, index, or strategy proxy, we will look at either a point in time estimate or historical average of factor exposures in order to determine the total volatility. Please contact your PIMCO representative for more details on how specific proxy factor exposures are estimated.

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