



Manulife

Investment Management

*Better
Income*



1 Interest rates have risen, and bond yields are normalised. Sitting on cash or cash equivalents could earn attractive interest yield in today's higher-for-longer interest-rate environment without taking additional risk. Why do investors in Asia still need *“income investing”*?

Many Asian investors are traditionally wedded to the perceived safety of high money market exposure and bank deposit positions, relying on cash savings or bank deposits to achieve their financial goals¹. Indeed, the region's households typically allocate 40% of their assets to cash².

However, following the global financial crisis, we entered a low-yielding or close-to-zero interest rate environment, with key central bank rates effectively touching zero in 2015-2016.

During these years, investors naturally sought higher income from multiple sources in place of bank deposits, and different income products offering attractive headline yields subsequently came to the market.

Even though interest rates are now higher as central banks have normalised interest rates to fight inflation, pursuing a regular and achieving a higher income from investment products is still a priority for Asian investors.

Income investing is a very relevant approach that can potentially capture higher rates beyond those available from cash deposits and provide an opportunity to benefit from their investments, such as rising bond values as interest rates begin to fall or capital growth when equity markets rise.

However, income products are not risk-free, carry no guarantees, and come with an underlying investment objective that may not suit everyone. We believe offering value through investor education programmes is essential, redefining “income” by moving away from a product dialogue towards a **“Better Income”** approach that considers the balance of risk, growth, and income elements that reflect investors’ objectives and income needs.

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¹ Manulife Asia Care Survey 2024

² Manulife Investment Management commissioned NielsenIQ to conduct an online survey of 2,000 people from Hong Kong, Taiwan, Indonesia, and Malaysia – 500 people from each market – who are aged 20 to 60 between 25 August and 6 September 2022. The research aims to assess people’s retirement readiness and aspirations, including savings and investments, and lifestyles and family issues they consider when planning for retirement.



2 What is the “*Better Income*” concept, and does it apply to my investment profile?

A “**Better Income**” approach seeks to understand an investor’s investment objective alongside the underlying risk of certain levels of income generation. Income brings with it varying levels of risk commensurate with the level of income an investor seeks.

A younger investor may have a different attitude towards income generation versus a retiree due to their different investment objectives and lifestyle needs.

As a baseline, a retiree may assume less risk and aim to preserve capital while looking for a decent income level above cash rates (e.g., 4-5% per annum). A younger investor may have a higher risk appetite, looking to maintain exposure to growth assets in the pursuit of wealth accumulation whilst having little current income needs and, therefore, may be willing to sacrifice some of that income generation potential to pursue higher growth.

Overall, “income” is not “interest” and is not “risk-free”. We believe investors should seek to understand the risks built into their portfolios that reflect their risk-profiled outcome alongside yields that a particular portfolio or asset class composition may achieve. In general, the higher the yield, the higher the risks taken to achieve that yield and potential volatility endured. Meanwhile, “better” income may not refer to the highest income level but the stability and consistency of reasonably higher yields generated throughout various market cycles.

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3 What are the *different sources of income*?

We believe that investors should thoroughly understand a particular source of income and its investment risk profile to achieve a stable income while making their capital last as long as possible.

Different sources of income

	 Interest payout/coupon	 Alternative income	 Capital gain
Objective	Fixed/Relatively steady payouts	Alternative/higher income streams subject to market movements	Accumulation gains to provide discretionary incomes
Examples	Cash and time deposits, government and corporate bonds, fixed-income funds	Options, preferred securities, REITs	Equities*, growth funds
Potential for capital appreciation	<p>✓ Yes for bonds/Fixed income funds</p> <p>✗ No for cash</p>	✓	✓
Helps manage	Market volatilities	Mitigate the drawdowns, balanced with growths	Adverse impact of inflations
Benefits	Regular and more predictable income streams	Downside protections, higher income potentially achieved	Capture market upside with a higher correlation to market changes
Risks	Lower	Medium	Higher

*Investors may directly receive an income (in the form of [dividends](#)) if they hold equities. Alternatively, they may indirectly receive an income (in the form of distributions) if they own mutual funds, exchange-traded funds (ETFs), or other pooled vehicles that hold equities.

Distribution of incomes, the frequency of distribution and the amount/rate of incomes are not guaranteed. Positive distribution yield does not imply positive return.

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