MIRAE ASSET
Global Investments

New China: Impact of the Chinese Consumer

Shanghai, China

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The transition of the Chinese economy from a manufacturing-led growth model to a consumer services-led growth model is widely expected to continue to create secular growth investing opportunities. However, the transition, thus far, has not been easy or straightforward. Even as China's growth is expected to slow down as government reforms are being made to shift the economy towards consumer spending, investors remain focused on China's stock market. Yet, China's stock market, representing less than 15% of household financial assets,[1] has only a small impact on Chinese households and therefore, the Chinese economy. Investors need to keep an eye on the bigger picture.

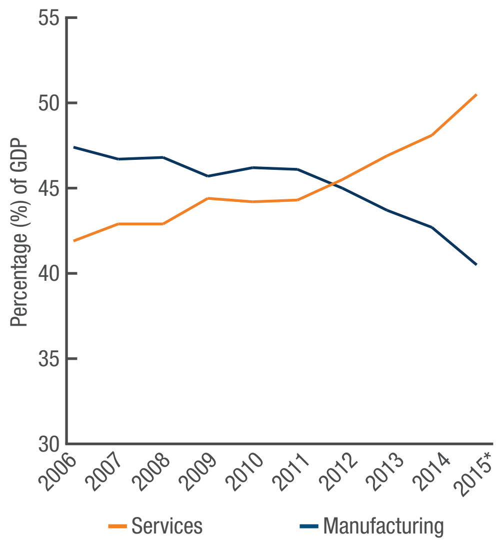
The Two Chinas

China's economy is moving in two different directions. "Old China", which is dominated by state-owned and heavy industries such as manufacturing and construction, is slowing down. "New China", on the other hand, with its innovative companies and focus on middle class consumption, has experienced resilient and even robust growth, in spite of slower growth in gross domestic product (GDP) and short term stock market volatility.

In 2006, Old China, as represented predominantly by the manufacturing industry, constituted 47.4% of China's GDP. Today, the manufacturing industry has contracted to 40.5% of the country's GDP.[2] Meanwhile, New China, as represented by the service industries, has been rising steadily. In 2015, the service industries, for the first time accounted for more than half of China's GDP, rising to 50.5%, up from 41.9% a decade ago (see chart 1).

New China, with its innovative companies and focus on middle class consumption, has experienced resilient and even robust growth.

Chart 1: The Service Industries Now Account for Most of China's GDP



*Preliminary Data. Source: National Bureau of Statistics.

[1] The Economist, June 2015.
[2] WSJ, January 2016.

The Chinese middle class is approximately the size of the entire US population.

The shift from the manufacturing sector to the services sector is an indication of China's progress in transitioning towards greater domestic consumption. As Old China may be stalling, New China is becoming an important engine of economic growth, especially as it pertains to job creation and middle class expansion. New China currently employs more than 300 million people, the largest share of the country's 775 million workers.[3]

New China vs. Old China*

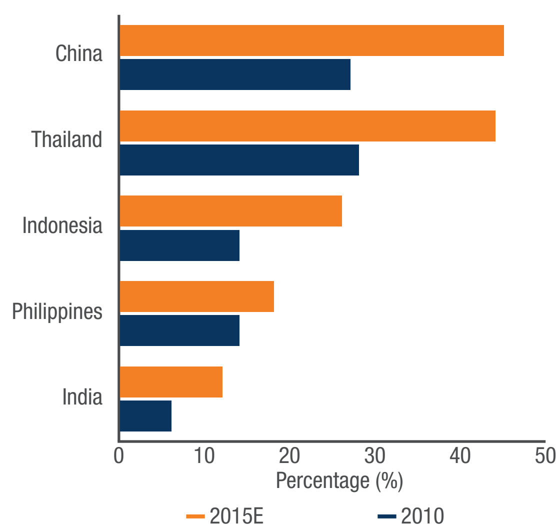
NEW CHINA	OLD CHINA
Internet/E-Commerce	Heavy Machinery
Travel & Tourism	Railways, Shipping and other Transportation
Beauty/Personal Care	Textiles and Apparel
Healthcare	Steel/ Metals
Education	Chemical Materials
Clean Energy	Energy (Coal)
Financial Services/Insurance	Rubber and Plastics

*A representative sample of industries, not a full list.

New China's Growth Engine — The Consumer

New China is driven by an expanding and wealthier middle class population. The middle class in China now makes up more than 40% of China's population, up from 27% in 2010 (see chart 2). In absolute terms, the size of the Chinese middle class is even more impressive. Using the same percentages and based on the population that is economically active (over 16 and capable of working), the middle class in China has grown from 215 million people to more than 318 million people in the past five years.[4] To put that figure into perspective, the Chinese middle class is approximately the size of the entire US population.

Chart 2: China Has One of the Fastest Growing Middle Class Populations in Asia



Source: Euromonitor, World Bank, CLSA. E=estimated.
Note: Households with over US$3,000 annual disposable income are defined as middle class.

[3] Bloomberg Business, January 2016.
[4] National Bureau of Statistics. Economically Active Population refers to the population aged 16 and over who are capable of working. In 2014, this population was at 796,900,000.

Supporting the growth of the middle class is rising income. Income is one of the most important determinants of middle class consumers' spending decisions. In China, the average annual wage of an urban household grew at a compounded annual growth rate of 13% from 2005 to 2014 (see chart 3). This upward wage trend is expected to continue, albeit at a slower pace, as the economy shifts from low-wage manufacturing industries to better-paying service and high-tech industries.[5] And as wealth increases, consumption is likely to follow. In 2014, Chinese annual household consumption nearly tripled from 2005 (see chart 3).

Consumer spending, underpinned by income growth, remains steady and strong even if the Chinese economy is not growing as fast as it once was. According to global research firm Boston Consulting Group (BCG), even if China's economy declines below its official growth target of 6.5% for the next five years, consumption is still projected to grow 9% annually during the same time period. The Chinese consumer market is anticipated to expand by $2.3 trillion over the next five years to become a $6.5 trillion market by 2020 (see chart 4).

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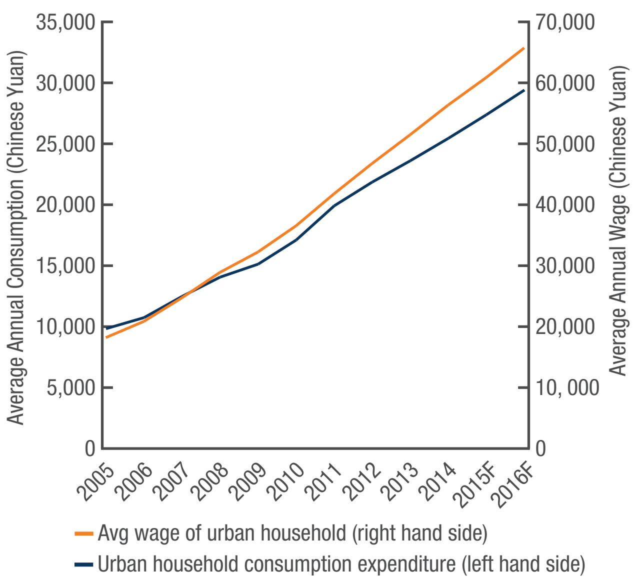
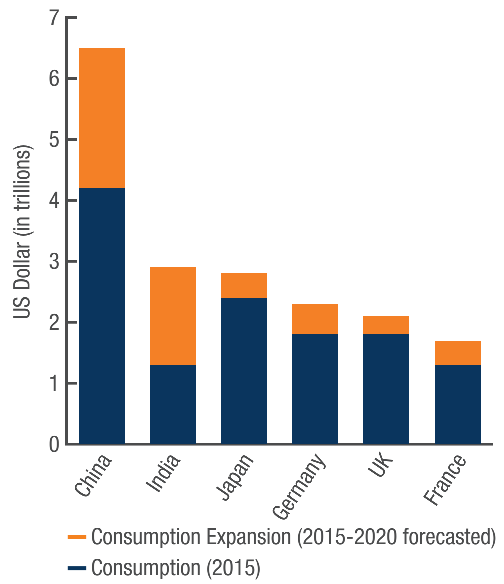
Chart 3: **Chinese Household Wages & Spending Continue to Trend Upward**



Source: National Bureau of Statistics, Korn Ferry Hay Group, Mirae Asset. F=forecasted. **Forecasted numbers are projections and not guarantees.**

Chart 4: **China is Anticipated to Become a $6.5 Trillion Market by 2020**



Source: Economist Intelligence Unit; BCG analysis.
Assumes annual GDP growth of 5.5% for China.
Forecasted numbers are projections and not guarantees.

[5] Boston Consulting Group, "The New China Playbook", January 2016.

Finding Success In New China

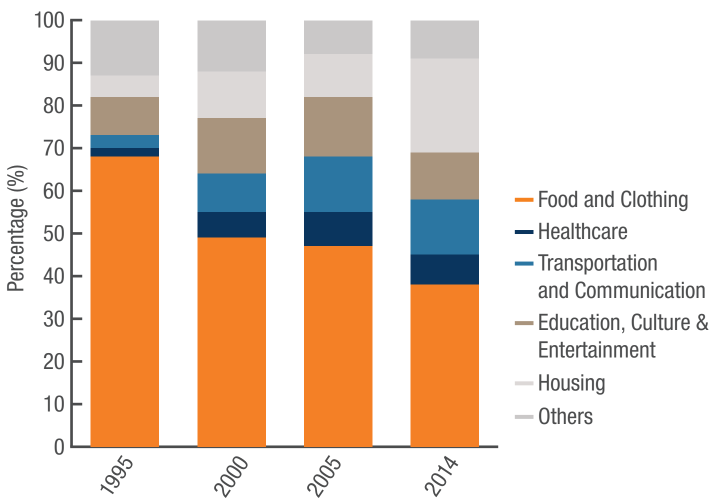
The Chinese consumer is evolving and their spending patterns are fueling a consumption boom in certain sectors and industries. Many of today's consumers in China have moved their purchasing beyond daily necessities such as food and clothing and are allocating more of their spending to discretionary items such as technology, education, healthcare,[6] recreation and travel (see chart 5).

Consumers in China tend to be younger with spenders under the age of 35 accounting for 65% of consumption growth.[7] In addition to being younger, Chinese consumers are also more tech-savvy and educated with the number of higher-education graduates more than doubling during the past decade from 3 million to more than 6.5 million.[8]

E-Commerce

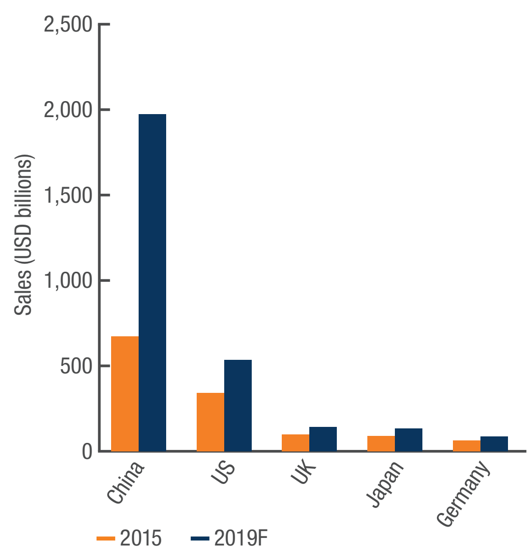
E-commerce is a prime example of an industry that has embraced and benefitted from New China. BCG refers to the growth in e-commerce as one of the most revolutionary changes in the Chinese consumer economy. China is now the world's largest e-commerce market and accounts for over 40% of the world's retail e-commerce sales.[9] China should continue to cement its number-one position in the near future as retail e-commerce sales are projected to soar to $1.9 trillion by 2019, more than twice the sales in the US, UK, Japan and Germany combined (see chart 6).

Chart 5: Chinese Urban Households are Allocating More of Their Spending to Discretionary Items



Source: Business Insider, National Bureau of Statistics.

Chart 6: China is the World's Largest Retail E-commerce Market



Source: Alizila News, eMarketer December 2015.
F=forecasted. **Forecasted numbers are projections and not guarantees.**

[6] As disposable income increases, the Chinese middle class is focusing more on their well-being and demanding higher-quality health services. Healthcare ranges from vitamins and dietary supplements to private doctors and hospitals.

[7] Boston Consulting Group, "The New China Playbook", January 2016.

[8] National Bureau of Statistics, data through 2014. Regular institutions of higher education include full-time universities, colleges, institutions of higher professional education and institutions of higher vocational education.

[9] eMarketer, July 2015.

The e-commerce boom in China is creating historic opportunities to invest in local internet companies. However, e-commerce companies will need to do more than just provide customers a platform to shop if they want to win in New China. In China, a majority of shopping is done not only online but also on a mobile device. In 2015, 55% of online shoppers used a mobile device, exceeding PC use for the first time, and by 2018 this is expected to increase to 70% (see chart 7).

The top Chinese e-commerce companies who dominate this space have online platforms that are content-rich, with user-friendly websites and mobile applications, and a fast, reliable delivery service. Strategic partnerships can also provide a competitive advantage. One of China's largest e-commerce companies has been able to respond to customers' mobile shopping preferences and boost their mobile orders by partnering with one of the country's most popular instant messaging applications to access and grow their base of active users.

Top companies in this space tend to have first leader advantage in business-to-consumer (B2C) strategy and are in the forefront of innovation in mobile payment solution. In a market where there is a proliferation of counterfeit goods, the most successful companies have been able to earn and keep the trust of their customers by offering high-quality, authentic products at competitive prices. These leading e-commerce companies are focused on cultivating brand loyalty through customer satisfaction, building large scale fulfillment centers and investing in a comprehensive and dependable logistics network with their merchants and delivery partners. As a result, successful Chinese e-commerce companies in New China have garnered investor confidence by increasing their base of active buyers, growing mobile revenue and improving their monetization rates.

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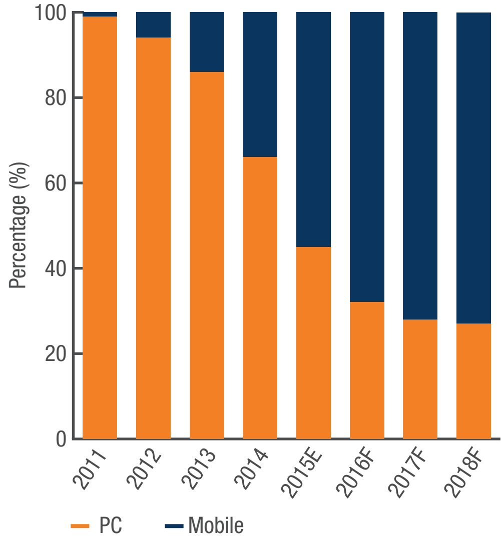
Chart 7: China's Online Shoppers Prefer Mobile Devices Over PCs



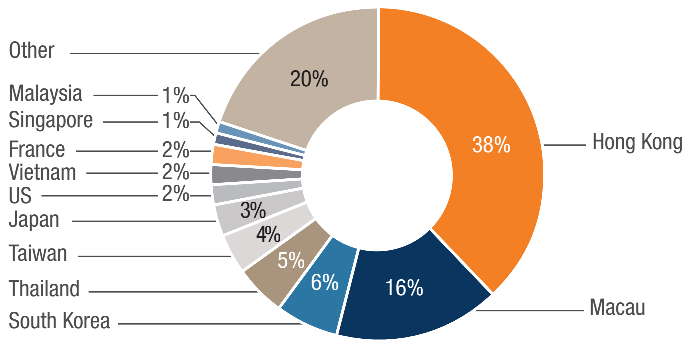
Source: iResearch. Based on Gross Merchandise Value (GMV). E=estimated. F=forecasted. **Forecasted numbers are projections and not guarantees.**

Travel & Tourism

Another dynamic industry in New China is travel and tourism. As the Chinese consumer becomes wealthier, a top aspiration is to experience more leisure travel, boosting demand for a range of service-based businesses.

With less than 6% of the population holding passports,[10] most Chinese residents tend to travel domestically. More than half of all Chinese tourists purchased leisure trips to destinations in sub-tropical southern China, particularly Hong Kong and Macau (see chart 8).

Chart 8: Hong Kong and Macau are Major Beneficiaries of Chinese Tourism



Source: CEIC, CLSA January 2016. Data as of 2015.

[10] Financial Times, April 2015.

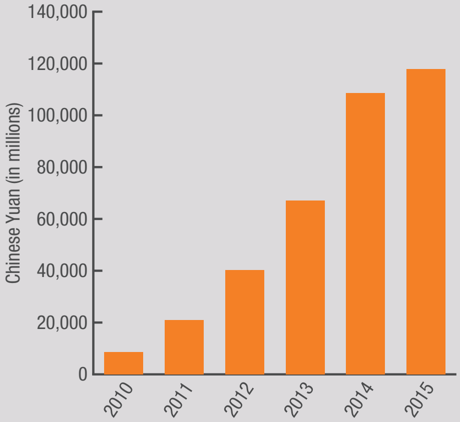
Winning in New China

New China is presenting companies with incredible investment opportunities. Here are examples of companies, both local and global, that have benefited from consumer spending in the rising service-based industries.

JD.com

JD.com is China's second-largest e-commerce site by sales. The company's revenue growth is a result of increasing active customer accounts. In 2015, JD.com had 118 million annual active customer accounts, up 72% from the year before.[13]

Online Direct Sales



Source: JD.com annual report.

Mirae Asset Global Investments may or may not hold positions in the companies discussed and this is not a recommendation to buy, hold or sell these companies.

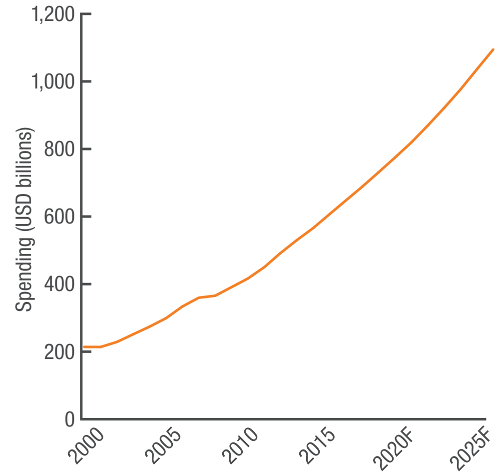
[13] Reuters, data as of June 30, 2015.

Leisure travel is expected to experience healthy growth and become a regular part of life for many Chinese households as affordability, holiday leave, better transportation and the desire to travel increase. The number of domestic trips in China increased from 870 million in 2003 to a staggering 3.6 billion in 2014.[11] This has had a tremendous impact on the Chinese economy. In 2014, domestic tourism spending generated over 90% of direct travel and tourism GDP and created about 23 million jobs.[12] Domestic tourism spending is forecasted to continue its upward trajectory and reach $1.1 trillion by 2025, up from $607 billion in 2015 (see chart 9).

The fast-growing leisure travel market in New China affects many business segments, from restaurants to airlines to hotels, and provides numerous opportunities to invest in the travel theme. One route is through online travel agencies. The top online travel service provider in China has been able to maintain its market leader status with its early-mover advantage, largest global hotel network and one-stop distribution platform offering air tickets, packaged tours, car rental and other travel-related services.

Hotel and hospitality is another investable service-based industry benefiting from Chinese tourism. One emerging markets company is offering Chinese tourists a unique lifestyle experience in their luxury hotels and restaurants backed by a high standard of service. They have achieved economies of scale through strategic acquisitions of select properties in China and by forming joint ventures with business partners who have local knowledge and expertise.

Chart 9: The Upward Trajectory of Domestic Tourism Spending in China is Expected to Continue



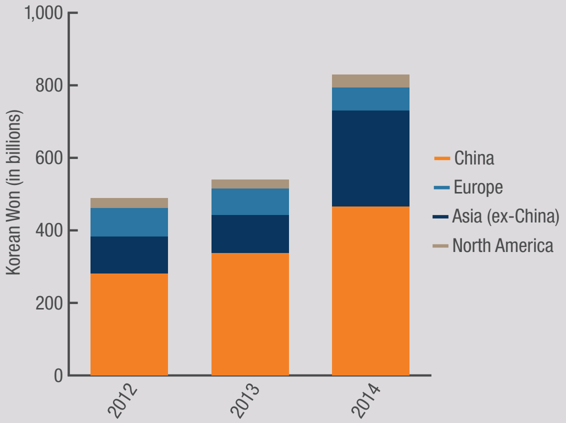
Source: World Travel & Tourism Council. 2015 is an estimate. F=forecasted. **Forecasted numbers are projections and not guarantees.**

[11] CLSA, January 2016.
[12] World Travel & Tourism Council, Economic Impact 2015 China.

AmorePacific

AmorePacific is South Korea's biggest cosmetics company by sales. China is AmorePacific's largest and fastest growing foreign market. Sales in China grew 38.2% year-over-year to reach KRW 464.9 billion ($423 million[14]) in 2014, up from KRW 336.5 billion ($316 million[15]) in 2013.

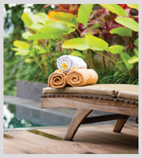
Global* Sales by Region



*Excludes Domestic Sales. Source: AmorePacific annual report.

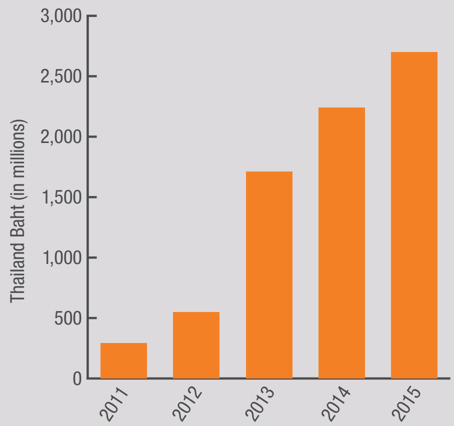
[14] Based on December 31, 2014 currency exchange rates.
[15] Based on December 31, 2013 currency exchange rates.

Minor International



Minor International, headquartered in Thailand, is one of the largest hospitality and leisure companies in the Asia Pacific region. Revenue from China grew at a compounded annual growth rate of 74% between 2011 and 2015.*

Revenues from China



Source: Minor International annual report.

*This figure does not reflect a measure of performance for any mutual fund.

Active Investing in New China

As China continues to rebalance its economy from manufacturing to services and consumption, from Old China to New China, service-based industries will increasingly drive economic growth. Although the path may be bumpy at times, Mirae Asset believes this transition will continue to generate new investment opportunities.

Mirae Asset's proprietary research indicates that New China represents a multi-decade investment theme. Moreover, we believe that the best way to access opportunities in New China is through an actively managed strategy rooted in fundamental, bottom-up research. Our high-conviction investment approach can help investors tap into the long-term growth opportunities of New China.

At Mirae Asset, we believe growing Chinese consumption continues to present investment opportunities even though investors must now be more selective. Economic growth is no longer what it had once been, the rising tide lifting all industries. Recent currency volatility and the slower rate of wage growth may dampen household consumption somewhat as consumers become more discerning about where and how they spend. To an active manager, this change means that the need for identifying the best companies has become even greater, since not all services companies in New China will succeed. Through active management, however, we believe that an investor can identify the companies best positioned — whether through brand strength, management acumen or technical innovation — to win in New China.

We believe that the best way to access opportunities in New China is through active management strategies rooted in fundamental, bottom-up research.

Please note: There can be no guarantee that any strategy (risk management or otherwise) will be successful. All investing involves risk, including potential loss of principal.

About Mirae Asset Global Investments

Mirae Asset Global Investments manages investment strategies for clients across the globe. With over $75 billion in total assets under management (as of December 2015), and over 600 employees, including 125 dedicated investment professionals, Mirae Asset offers a breadth of emerging markets expertise. Mirae Asset's offices are located in Australia, Brazil, Canada, China, Colombia, Hong Kong, India, Korea, Taiwan, the U.K., the United States and Vietnam.

We focus on actively managed emerging market-focused portfolios through a bottom-up investment process rooted in on-the-ground research. Mirae Asset Global Investments is recognized as one of the world's largest emerging market equity investment managers* and has one of the largest teams of investment professionals dedicated to emerging markets. Our worldwide team of portfolio managers, analysts and strategists maintains proximity to the investment opportunities that we research, allowing a deep understanding of companies and the cultures in which they operate.

*Source: *Investments & Pensions Europe,* November 2015.

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Disclaimer

Definitions and Important Information

Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

Gross Merchandise Value (GMV) is the total value of merchandise sold over an established time period before deducting fees or expenses. This is a measure used by retailers to quantify their business growth.

Past performance is no guarantee of future results.

Investment Risk — There can be no guarantee that any investment strategy (risk management or otherwise) will be successful. All investing involves risk, including the potential of loss of principal. **Emerging Markets Risk —** The risks of foreign investments are typically greater in less developed countries, which are sometimes referred to as emerging markets. For example, legal, political and economic structures in these countries may be changing rapidly, which can cause instability and greater risk of loss. These countries are also more likely to experience higher levels of inflation, deflation or currency devaluation, which could hurt their economies and securities markets. For these and other reasons, investments in emerging markets are often considered speculative. Similarly, investors are also subject to foreign securities risks including, but not limited to, the fact that foreign investments may be subject to different and in some circumstances less stringent regulatory and disclosure standards than US investments.