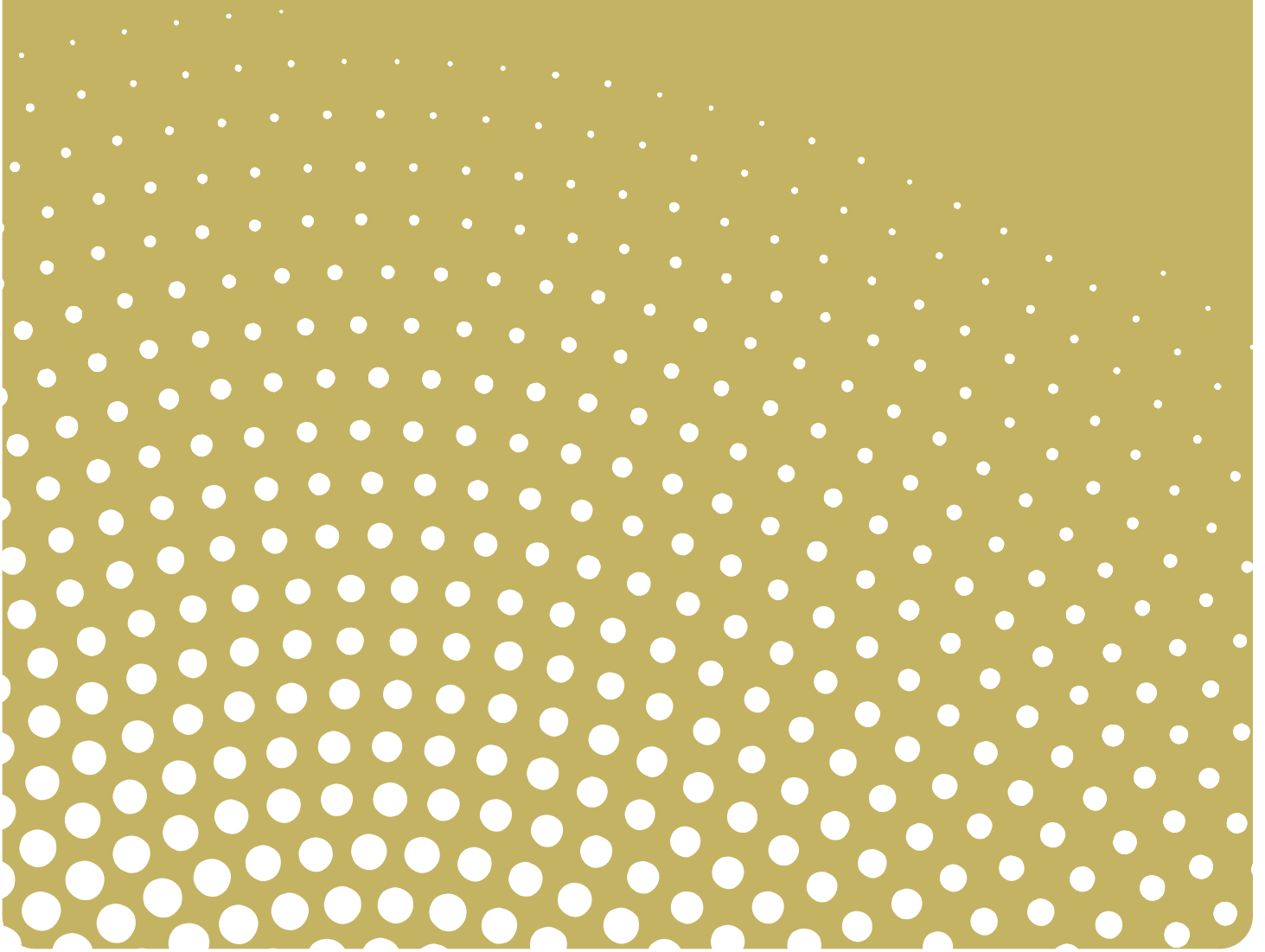




Tomorrow's Consumer

Focusing on the Asian consumer with an «Asian Consumer Basket»



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Roughly one year ago, we addressed for the first time the potential behind Asian consumption. Today, this topic is more relevant than ever. The reduction of government debt will burden economic growth in the industrialised nations. Compared to the «Old World», the emerging countries have a relatively low level of indebtedness and also exhibit more favourable demographic structures. No immediate need for debt reduction exists in most of those economies. Nonetheless, they are indirectly affected by the savings efforts of the industrialised nations because the «new kids on the block» are highly dependent on exports. Primarily the Asian economies have an advantage in this regard because fundamentally they can tap other sources of growth.

We expect a higher growth contribution from domestic consumption in Asia. Due to low wages and undervalued exchange rates, Asia has been able to sell goods and services successfully to global markets. As a result, several hundred million people have overcome poverty. Their higher incomes subsequently led to higher consumer demand. The Emerging Consumer Basket launched last year has meanwhile been redeemed and we are now offering existing and new investors the opportunity to participate further in this process by means of a new, carefully selected basket of shares.

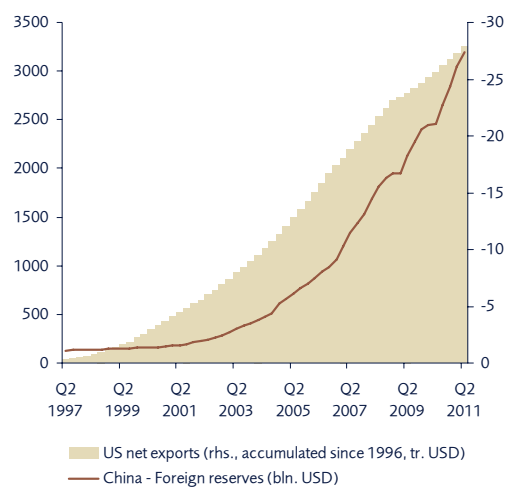
Global imbalances persist

In the aftermath of the Asian crisis, the emerging countries in the Far East keyed on their export industries, a move that led to undervalued currencies. The Asian consumer was amongst the losers of this strategy because foreign (consumer) goods rose significantly in price. Nonetheless, many emerging countries, especially China, have built up huge trade surpluses and foreign exchange reserves. The Chinese people save too much and consume too little of what their country produces.

The United States was Asia's main accomplice. Americans bought Asian products and increased their indebtedness at the same time. After the financial crisis, this syndrome stopped. Neither the private nor public sector can assume any more debt without being penalized by the credit market through higher interest rates.

Asia needs a shift in economic activity to maintain the growth rates of recent years: fewer exports, more domestic consumption.

China's foreign reserves and US net exports

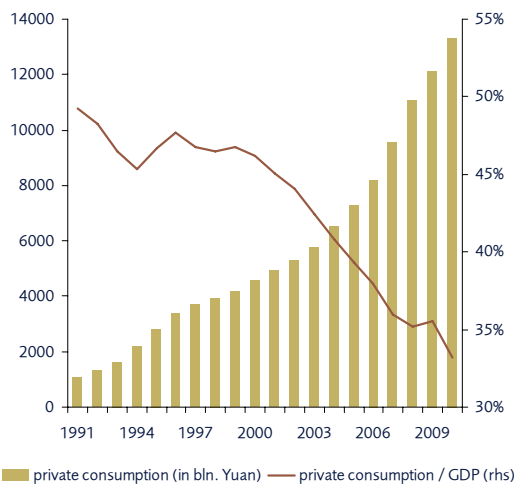


Source: VP Bank, Thomson Datastream

The income is available

The basis for that shift is in place. Over the past 20 years, wages in the Asian emerging countries have increased significantly, although the growth rates have lagged those of their gross domestic product (GDP).

China's private consumption in absolute and relative terms



Source: VP Bank, Thomson Datastream

Moreover, wages should rise even more in the near future. According to the development theory of British economist and Nobel laureate Arthur Lewis, China may be approaching a turning point:

- Countries that are at the dawn of industrialisation have two very different sectors: a traditional agricultural sector with low productivity, and a modern capitalistic one with high productivity growth.
- As industrialisation emerges, the primary sector has a seemingly endless pool of employees. This excess supply prevents excessive wage pressure. Wage increases are smaller than the growth in productivity.
- The «Lewis Turning Point» is reached when the pool of employees of the traditional sector becomes smaller than the demand from the capitalist sector. This leads to an altered supply/demand relationship and thus to rising wages.

Today's industrialised countries also experienced such turning points in their own economic evolution. During the Industrial Revolution, wages in the UK were initially stable from 1800 until the 1840s, after which followed a period of significant increases. In Japan, this turning point was reached in 1960.

Today, China in particular is approaching that point. The supply of young employees will be reduced by a third over the next twelve years. Along China's coast, where Chinese industrialisation has its roots, major companies (e.g. Foxconn, the world's largest manufacturer of electronics and components for products such as the iPhone) have recently increased their wages significantly.

Proportion of consumption can be expected to increase

Private consumption as % of GDP (2010)



Source: VP Bank, Thomson Datastream

As a result, the consumption quota will increase. The share of consumer spending represents only about 33% of China's gross domestic product. This is the lowest reading amongst all major economies. By way of comparison, the rate in the US stands at approximately 70%.

Despite this low proportion, the Chinese consumer is already becoming an important factor. With a middle class totalling 157 million people, China has the world's second-largest number of moderate wage-earners. This equates to a relatively modest 12% of the total population. Correspondingly, the potential is huge.

Per capita income increases if the economy grows faster than the population. Hundreds of millions of people have left poverty behind them in the past ten years. The OECD expects that by 2030 two-thirds of the global middle class will live in Asian countries and the proportion of European and North American middle classes will halve to 30% during the same time frame. As a result, the consumption proportion in Asia will rise considerably.

Global middle class: people by regions

	2009	2020	2030
North America	18%	10%	7%
Europe	36%	21%	14%
Central and South America	10%	8%	6%
Asia Pacific	28%	54%	66%
Sub-Saharan Africa	2%	2%	2%
Middle East and North Africa	6%	5%	5%
World	100%	100%	100%

Global middle class: consumer spending by region

	2009	2020	2030
North America	26%	17%	10%
Europe	39%	29%	20%
Central and South America	7%	7%	6%
Asia Pacific	23%	42%	59%
Sub-Saharan Africa	1%	1%	1%
Middle East and North Africa	4%	4%	4%
World	100%	100%	100%

Source: OECD

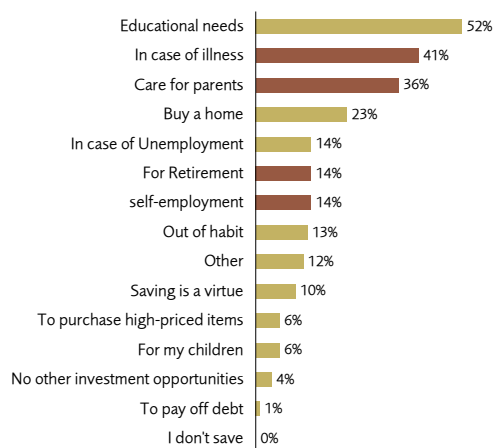
Reforms allow higher rate of consumption

In addition to the below-average wage growth rates of recent years, a high private savings rate is another reason for the temperance of the Chinese people. Other Asian countries also experienced very high national savings rates during their industrialisation. The highest readings were registered in Japan, South Korea and Taiwan at around 35-38% of GDP. China recorded similar savings rates in the 1990s and early 2000s. However, since 2003 the rate has risen again markedly and ultimately reached 52% in 2009 – a new record.

One reason for the high private savings rate is the sketchy social security net. A global survey by McKinsey supports this aspect: amongst the seven

most-mentioned reasons for saving, four are associated with social security benefits.

China: Reasons for saving

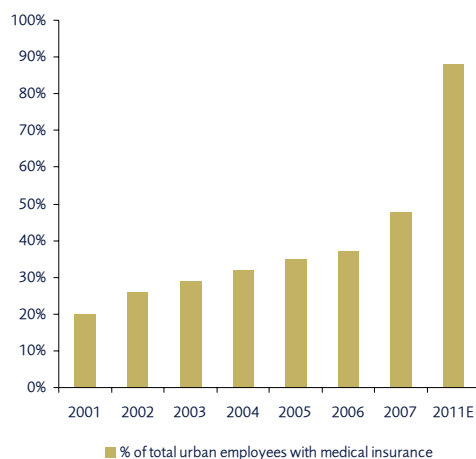


(% of people, three votes possible)

Source: McKinsey Global Institute Analysis

Due to the «one-child policy», which is applicable to most of the population, there are indeed only few alternatives for securing one's personal «golden years». This might change with China's aim to expand its social safety net. In 2001, less than a fifth of the urban population had health insurance. By 2007, the ratio had already more than doubled. Next year the People's Republic will have extended coverage to 90% of the total population. Admittedly, the expansion of the social safety net has to be financed by taxes or other revenues. However, as an insurance system, this is considerably cheaper than privately run measures and there is more disposable income at the bottom line. Consequently, the propensity to consume increases.

China: Rapidly increasing health insurance provision



Source: BCA, Ministry of Labour and Social Security of P.R. China

Chinas new orientation

In conjunction with the twelfth five-year plan adopted by the National People's Congress this past March, the Chinese government has defined for the first time a strengthening of domestic consumption as one of its central strategic goals. Real incomes should rise at a faster pace than gross domestic product and the standard tax deduction should be increased significantly. Also, the poorer hinterland is to be given more support in order to close the gap with the rich coastal region and major cities.

Short-term challenges, long-term potential

Despite this positive long-term outlook, there exist a number of challenges at present. For one, the emerging nations are confronted with rising inflation rates. This price pressure is mainly due to the cost of food and energy, thus it hits the consumer the hardest. Although inflation rates are still high, the recently introduced measures in the form of tighter monetary policy should gradually gain traction in the months ahead. Although the emerging economies are no longer as vulnerable as they were just several years ago, their heavy dependence on exports can still cause them harm in the event of an external shock. This consideration has caused also the emerging securities exchanges to suffer in recent months under the financial market turbulence being witnessed in the Western World. Investors with a long-term time horizon can exploit these correction phases to gain exposure to the «Tomorrow's Consumer» theme.

How can a foreign investor profit from the rise in Asian consumption?

Investors who want to benefit from the emergence of the Asian middle class and rising private consumption in emerging countries should be very selective. Index-based funds (ETFs), for example, are not suitable for focusing on this topic because the underlying indices currently reflect the "old" economic structures. The composition of most Asian equity indices is heavily weighted towards export-oriented (20-25%) and financial services (30-35%) stocks, while the health-care sector with 3% of total market capitalisation is underrepresented. However, the latter represents almost 10% of the MSCI World equity index. Domestic Asian companies are not the only winners. In some industries, such as luxury goods, the main beneficiaries are Western companies.

Asian Consumer Basket

Broad diversification is essential, particularly when investing in emerging market equities. Those stocks generally fluctuate more widely than their counterparts in developed markets. For that reason, we have defined a basket comprised of the 39 most promising

companies in the favoured sectors of this region. The relevant selection criteria: the given company's market orientation and market share, the proportion of total sales generated in emerging markets, and their brand recognition in those markets.

Roughly 60 per cent of the selected companies are based in emerging countries. The remainder are companies that hold leading market positions in China but are domiciled in Europe or the US.

The Asian Consumer Basket is listed on Switzerland's Scoach derivatives exchange and can be daily traded. For more information, please see the Factsheet.

Name	ISIN	Currency
VP Bank Asia Consumer Basket	CH0141497898	CHF
VP Bank Asia Consumer Basket	CH0141497906	EUR

Which sectors will benefit from the increased consumer spending?

Consumer staples

Goods for daily use, such as food, beverages and household goods probably represent the most obvious bonanza from an increase in purchasing power. Thus, the Chinese cosmetics market was hardly affected by the global recession in 2008 according to research firm Euromonitor. The market even grew by 8.7% in 2009.

Automobiles

Two years ago, China overtook the US as the world's largest automobile market. Local producers benefit from technology transfer by means of joint ventures with Western manufacturers. Foreign suppliers, however, still possess the largest market share. Thus German car manufacturers are the main beneficiaries of the sharp rise in premium car sales.

Luxury goods and sports attire

Luxury goods are very popular in Asia and are considered a sign of social and financial stature. Presently, access to those articles is still reserved for the upper class, but that segment of the population is growing rapidly. Given the fact that there are 46 cities in China with more than 2 million inhabitants and that sales in newly opened stores are primarily driven by new customers, the number of stores seems rather low. For the young middle class, branded sportswear is considered an affordable luxury.

Tourism and leisure

Rising consumer spending should also lead to increased travel activity, especially within Asia. The greater number of international events taking place in the region (sports, culture, etc.) also ensures an increase in hotel occupancy and average room rates. Regulatory changes, such as the easier availability of temporary visas, should also be seen as a positive

factor. The main beneficiaries of this trend are restaurants, hotels, casinos and airlines.

Healthcare

Asia's spending on healthcare is very low both in absolute and relative terms. Apart from an undersupply the related goods and services, the demographic trends – especially in China – make the case for strong growth in the sector. China is the world's second largest economy, but only the fifth largest pharmaceutical market. However, that market is likely to grow by 25 to 30% per year thanks to government-sponsored programmes. Those growth rates are therefore one of the most important variables for the coming years.

Telecommunications and utilities

Not only cyclical sectors benefit from increasing domestic demand. Defensive sectors also have attractive potential. While other sectors often generate income abroad (in developed Western markets), telecommunication providers and equippers are considered domestic «pure plays». They usually generate all of their revenues in their respective home country. With an estimated 700 million subscribers, the Chinese mobile phone market is already the largest in the world.

Financial services

Although the financials are not consumer stocks, they also benefit from rising income levels and personal wealth. Moreover, security needs drive demand for insurance products. Given the currently very low level of private debt, banks active in the field of consumer finance should also benefit.

Company profiles:

Consumer Staples

China Agri-Industries: The company is a leading producer and supplier of agricultural products (wheat, rice, etc.) on the Chinese mainland.

PT Indofood Sukses: The largest Indonesian foodstuff producer for instant noodles, flour and nutritional oils is also a major player in baby food and has strong pricing power.

GOME Electrical Appliances: One of China's leading distributors of household appliances: the company focuses on sustainable growth.

Focus Media Holding: A provider of solutions for advertising space on buildings, shopping centres, cinemas, etc. This market leader has the chance to garner a large portion of the growth in this segment.

China Mengniu Dairy: China's largest producer of milk and dairy products: the company is enjoying strong growth especially in the UHT milk area.

SEB: Due the acquisition of China's Supor, SEB generates about 50% of its revenues in the emerging markets. Its product range fits very well with Chinese consumer habits.

Unilever: Unilever has a leading position in the emerging markets. Its historical presence and extensive distribution network are strong competitive advantages. Unilever generates 53% of its revenues in the emerging nations.

L'Oreal: China is the third largest market for L'Oreal. The company's market share has risen from 8% in 2004 to about 12% in 2009. Its premium brand Lancôme is the market leader in skin care.

SABMiller: The company holds a leading position in China. Thanks to its joint venture with CR Snow, SABMiller owns a 49% stake in the largest Chinese brewery. More than two-thirds of its revenues are earned in the emerging nations.

Automobiles

Guangzhou Automobile: In terms of sales, Guangzhou Auto (GAC) is the sixth-largest automobile company in China and a market leader for large limousines.

Astra International Tbk: The company is the largest player in Indonesia. It holds a 50% share of the car and 45% of the motorcycle market. These areas in particular are expected to grow at a rate of 10-15% and 10%, respectively, in the years ahead.

Daimler: Daimler's premium brand Mercedes continues to record solid sales growth. In the Chinese market, it took over second place from BMW in July for the first time.

Volkswagen: In 1984, Volkswagen Group was the first foreign automotive company to venture into China. Audi can be successfully positioned in the country's premium segment. Today, VW generates more than one-quarter of its sales in China alone.

Luxury goods and sports attire

Luk Fook Holdings: The company produces and sells jewellery especially in Hong Kong. Luk Fook is one of the four most recognised brands amongst Chinese consumers. With more than 750 outlets, its products are distributed not only in Hong Kong but also in China, Singapore, the USA and Canada.

Belle International Holdings: China's second-largest provider of shoes and sports attire: the company generates 65% of its total revenues through shoe merchandising, a field that is expected to grow at a 15% annual pace over the next five years.

Burberry: Burberry has strengthened its "direct" presence in China by acquiring the businesses and related assets of its long-standing franchisees.

Richemont: Sales of luxury watches on the Chinese mainland are at an early stage. With a turnover of more than 30% attributable to Asia, Richemont has strong regional foothold.

LVMH: This French company has a strong, extensive brand portfolio in the fields of fashion, handbags, watches, cosmetics, wine and spirits. Thanks to its early presence in the Middle Kingdom and high degree of international recognition, LVMH has a strong market position in China.

Adidas: Since the summer of 2011, the company's Chinese inventories are free of older products. Recent positive feedback from retailers regarding new product introductions should lead to accelerated growth in China.

Tourism and leisure

Shangri La Asia: Shangri La Asia operates luxury hotels under different names in the Far East. Its main markets are mainland China and Hong Kong. The company's current capacity of 23,000 rooms is scheduled to increase by another ca. 19,000.

Home Inns: Home Inns is a Chinese hotel chain that operates 674 hotels in 126 cities. The company is pursuing an aggressive expansion strategy. Its hotels are positioned in the lower- to mid-price range.

SJM: Casino operator SJM holds the highest market share in Macau – the gaming paradise of the Chinese. SJM is active in both the VIP and mass market segments.

Wynn Macau: The Wynn Macau is the first Las Vegas-style casino and luxury hotel in Asia (Macau). In April 2010, the addition of an annex increased the hotel's capacity to more than 1,000 rooms. By 2014/15, the capacity should double yet again.

Cathay Pacific: Cathay Pacific operates out of Hong Kong and is one of the world's most profitable airlines. It not only offers excellent international connections but, thanks to its Dragonair subsidiary, also short-and medium-haul flights.

China Southern Airlines: This airline operator and provider of commercial services in China and other parts of Southeast Asia is benefitting especially from the boom in domestic flights.

Yum! Brands: This fast-food chain, with its KFC, Pizza Hut, Taco Bell and other renowned brands, is widely present in the emerging nations. 3,700 of its affiliates are located in China alone. Almost half of the company's revenues are generated in emerging economies. 36% of the total is attributable to China, its second largest market outside the US.

Consumer electronics

Samsung: Samsung is one of the world's leading manufacturers of consumer electronics and has a strong presence in Asia, where it generates 57% of its sales.

Healthcare

Mindray: Mindray is China's largest exporter of medical technology. Its main market is China, followed by other emerging countries.

Sinopharm Group: This partially state-owned enterprise is China's largest pharmaceutical company and stands out for its first-rate distribution network. Advantageous legislation and demographic change promise further sales growth and consolidation opportunities within the industry.

AstraZeneca: AstraZeneca China is the No. 2 in the Chinese prescription drug market. Its strategic investment plan «in China, for China», which was initiated in 2001, promises continued growth.

Novo Nordisk: The company has been active in China since 1994, which meanwhile represents its fourth largest market in terms of sales. Novo Nordisk mainly dominates the Chinese insulin (60% market share) and diabetes market.

Telecommunications and utilities

China Mobile: China Mobile is the world's largest mobile phone operator. The company attracts close to 5 million new customers each month, this on top of its existing customer base of 522 million (2009).

PT Telekomunikasi Indonesia: This state-owned yet exchange-listed company is a provider of services in the field of telecommunications in Indonesia.

China Resources Power: As the country's largest publicly traded electric utility, China Resources Power profits from the rising demand for electric power.

Financial services

China Construction Bank: China Construction Bank is the third largest bank in China. It benefits from knowledge transfers with its strategic shareholders Bank of America and Temasek.

China Life Insurance: China Life is China's largest life insurer, but it also offers other insurance products. In addition to its 736,000 agents, China Life also has strong business connections with major banks.

Bank Rakyat Indonesia: Bank Rakyat Indonesia is one of the largest banks in Indonesia. Its primary field of activity is the microcredit business in rural areas. Micro and small loans to consumers represent more than half of the company's credit portfolio.

Standard Chartered: The largest foreign bank in China, Hong Kong, India, Indonesia and Malaysia: the Asia/Pacific region is accountable for more than 50% of the company's bottom line.

Ping An Insurance: This Chinese insurance company generates 63% of its revenues through whole-life policies.

Contact

Economics & Investment Office

Tel +423 235 63 99

Fax +423 235 61 39

investment@vpbank.com

Persons responsible for content

Bernd Hartmann, Senior Investment Strategist

Rolf Kuster, Investment Strategist

Dennis Huber, Career Starter Wealth Management

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