Julius Bär

WEALTH REPORT ASIA 2018

DECEMBER 2018
MCI (P) 073/08/2018

Julius Bär

Front cover:
Aerial view of Bangkok's tallest building - MahaNakhon
Source: iStock

EDITORIAL

The global economic picture remains bright, even as leading indicators hint at a slower pace ahead. In this environment, the Julius Baer Lifestyle Index saw its best yearly price growth on record from a year earlier, an indication of the robust purchasing power of high net worth individuals in Asia. Yet as the Chinese economy slows, there is growing concern that global luxury consumption will fall along with it.

We believe that Chinese consumers will continue to expand their spending in luxury goods but led by a different demographic from the past - namely, the middle class, the millennial and the female consumer. In view of the rising tide of female wealth, this year's thematic piece focuses on Womenomics in Asia. The purchasing power of women in Asia is increasingly gaining recognition, with more women in senior management positions and becoming more financially savvy.

The Julius Baer Lifestyle Index saw its best yearly price growth on record.

This year, we launched a new index – the His & Hers Index, which compares the cost of living for wealthy women and men across Asia. We find that gender-based pricing exists even in the luxury space, with female personal adornments costing more on average than for the male equivalents.

We invite you to read more of our insights in the 2018 Julius Baer Wealth Report Asia and we thank you for your interest throughout the years.

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Chief Executive Officer
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MACRO BACKDROP

Like most industries, the luxury industry is reliant on a healthy global economy to support operational performance. In other words, there is a positive correlation between global Gross Domestic Product (GDP) and the overall luxury industry's revenue and profitability.

This is notwithstanding the proclamations of former LVMH Chairman and CEO Yves Carcelle in 2011 that '[Louis Vuitton] doesn't see any signs of slowing down whether it's in Europe or in America. The world of luxury doesn't obey the same rule'.

It is therefore encouraging that the picture for the global economy remains bright, even as leading economic indicators hint at a somewhat slower pace ahead. The US continues to power ahead while the eurozone and Japan are showing moderate momentum. This is in contrast to the situation faced by emerging markets which have suffered from dollar strength.

Finally, the political setting is more volatile than before but we do not expect these jitters to spread to the global economy.

INFLATION

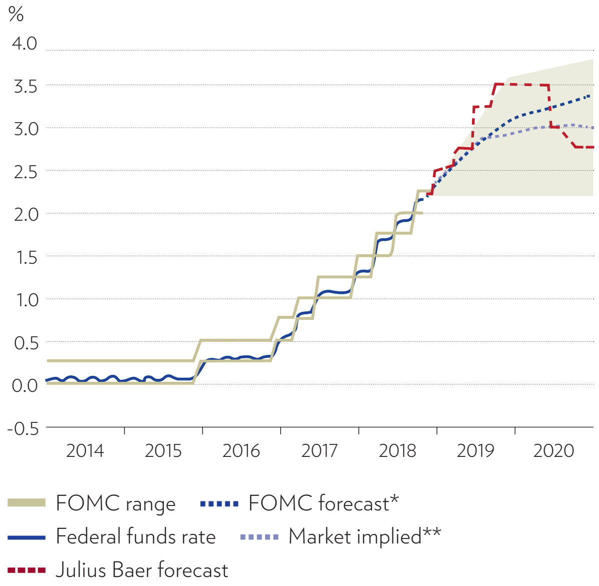
Rate rises and a more general monetary tightening can be expected over the coming year as capacity constraints and ongoing debt accumulation in the US and Chinese economies in particular lead to higher inflation, putting an end to the extremely benign inflation environment of the past decade.

In general, inflation is bad news for consumers but it is generally beneficial for luxury companies who sell Veblen goods which are defined as luxury goods whose demand increases as their prices increase. Simply put, the status of a brand such as Louis Vuitton, Hermes, or Armani is also underpinned by the price at which it is sold.

Prices in the luxury industry have surged in the past two decades and they are expected to continue to outpace inflation in the absence of downward shocks to the global economy.

CHART 1: FED FUNDS TARGET AND FOMC PROJECTIONS

*median of dots, **implied by Overnight Interest Rate Swaps



Source: Federal Reserve, Bloomberg Finance L.P., Julius Baer
FOMC = Federal Open Market Commitee

Date: 9 Oct 2018

CURRENCIES

The broad trend of US dollar strength and currency crises in Argentina and Turkey have kept emerging market currencies in focus this year, with a number touching historic lows.

Exchange rate fluctuations can have outsized effects on consumer purchasing behaviour for luxury goods. Post the Brexit referendum, the UK became one of the least expensive luxury markets in the world which spurred a shift in tourist spending to the country. Yet this also presented a challenge for global companies with a UK presence. Case in point, Tiffany raised retail prices in the UK to maintain its worldwide relative pricing structure.

Sharp drops in exchange rates also increase the risk of goods entering the grey market (the trade of goods through distribution channels unintended by the original manufacturer).

Luxury companies can protect against the grey market by realigning retail prices worldwide to discourage these practices, which has proved successful historically.

Three currencies hold significance in our analysis of luxury demand. They are i) the US dollar as the global reference currency, ii) the euro, which is tied to the cost of manufacturing for many major European luxury houses and iii) the Chinese yuan, which is tied to the purchasing power for the world's largest consumer market – China.

Our expectations are for a neutral US dollar and euro on valuation grounds. However, we are bearish on the Chinese yuan given pressures from trade quarrels, a slowing economy and a weaker current account. A prolonged depreciation of the yuan could weigh on luxury demand and incentivise more purchasing onshore.

CHART 2: BETTER ECONOMIC DATA MOMENTUM IN THE US SUPPORTS THE USD

* Australia, Canada, Eurozone, Japan, New Zealand, Norway, Sweden, Switzerland and the UK

Source: Citi, Julius Baer

FINANCIAL MARKETS

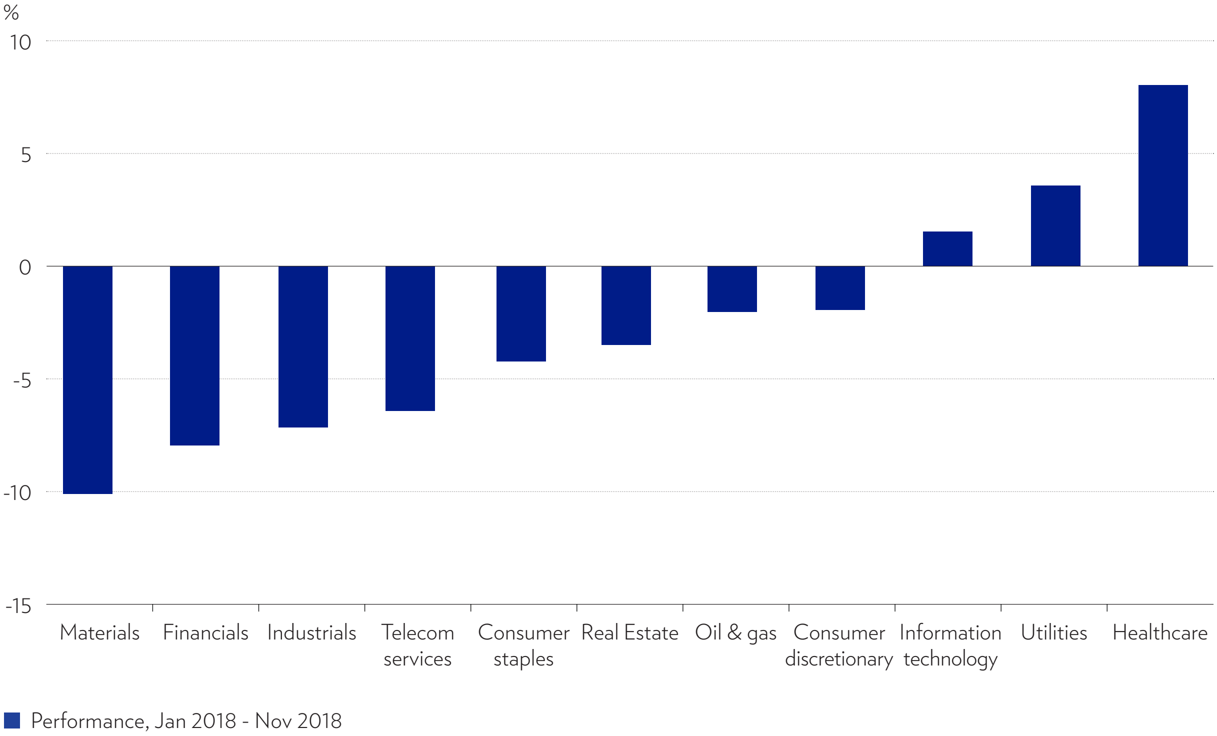
Research has shown that rising or falling equity markets can have a material wealth effect and psychological impact on consumer spending. In fact, more than 60% of wealth creation in the US in the 1990s was due to the rising value of household stock holdings. This is especially true for High Net Worth Individuals (HNWIs) who have a larger allocation to stocks (55%) compared to bonds (21%), cash (15%), alternatives (6%) and others (4%)[1].

The performance of financial markets has been lacklustre this year. Equity and bond prices are moving in sync downwards, like in the 1990s.

Developed markets have given up their positive returns, emerging markets have endured a bloodbath, while US government bonds, emerging market bonds and long-dated corporate bonds are down. In commodity markets, energy and gold have also erased earlier gains.

We remain equity market optimists premised on global economic growth, buybacks, corporate profitability and a no-hard-landing scenario in China. The threat of wealth destruction from a deep stock market correction is unlikely in our opinion.

CHART 3: MIXED PERFORMANCE IN THE EQUITY SECTOR



Source: Bloomberg Finance L.P., Julius Baer

[1] US Trust 2018 Insights on Wealth & Worth

PLAY IT AGAIN, SAM

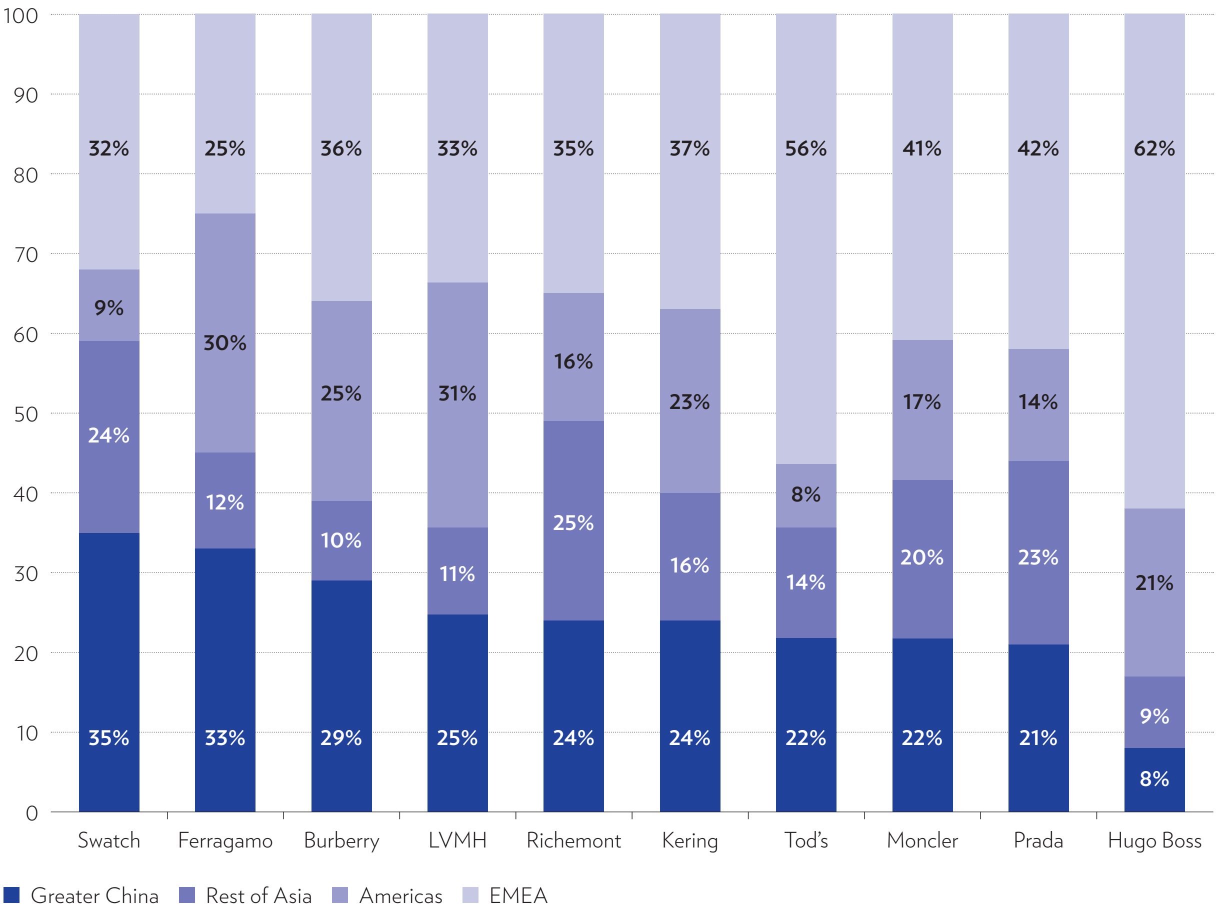
Benign economic conditions over the past two years have supported a recovery for the luxury industry, which returned to growth in 2017 (+5% year-over-year [y/y] to EUR 1.2 trn) following a tepid 2016[2]. The personal luxury goods market experienced strong growth last year on the back of robust local consumption and strong tourist purchases.

By region, Asia was the top performer led once again by China, as Chinese consumption bounced back in 2017, fuelled by renewed consumer confidence, the young and digitally savvy and the emergence of a new middle class. Elsewhere in the region, Japan has benefited from tourism spending while Hong Kong continues on its recovery trajectory.

This momentum has been carried through to the first half of 2018.

CHART 4: GREATER CHINA ACCOUNTS FOR ~25% SALES FOR THE LUXURY SECTOR

Revenue breakdown by geography (%)



Source: Company data and Morgan Stanley Research estimates

[2] Bain & Company - Bain Luxury Study

THE CHINA EXPRESS IS SLOWING

Yet recent signs are pointing to an outlook that will be less spectacular.

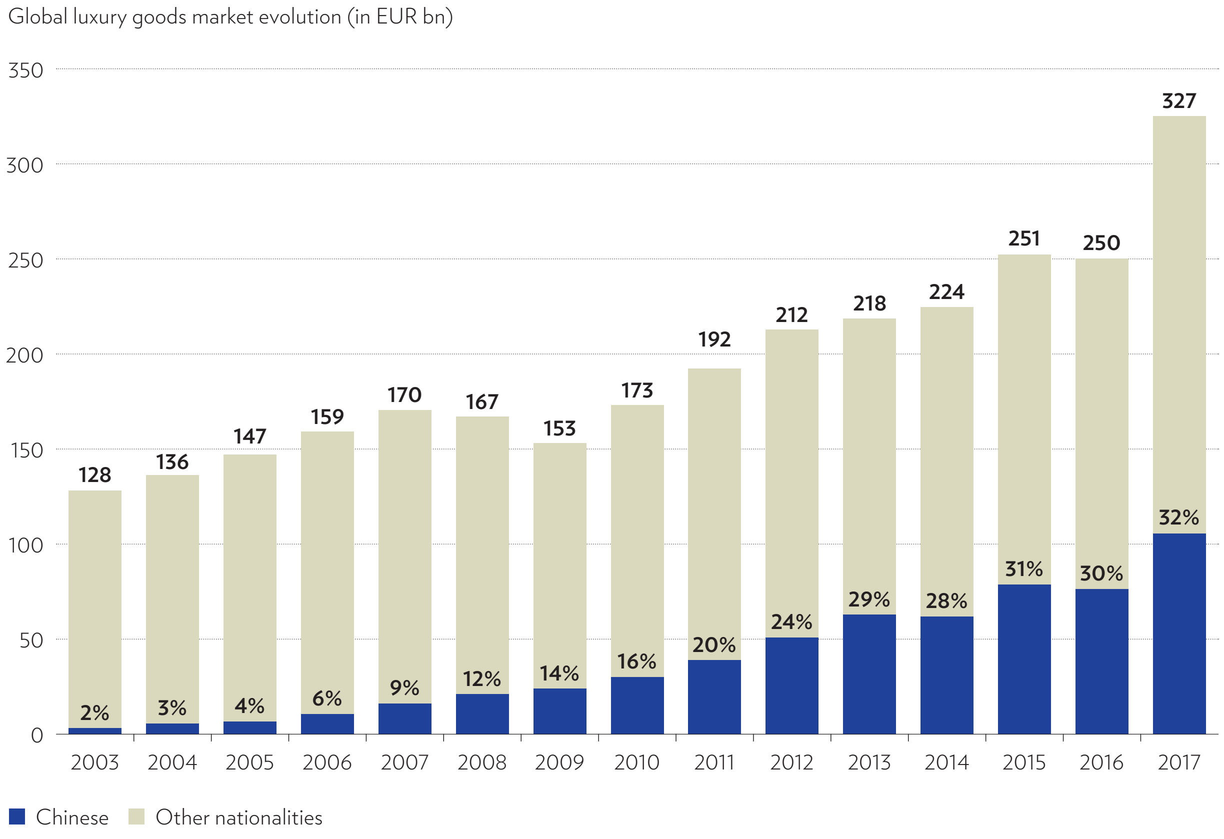
Amid the ongoing trade conflict with the US and a softening growth dynamic, the Chinese stock market has come under significant selling pressure this year.

Given fears that the slump will be exacerbated by margin calls, authorities have taken steps to shore up the equity market. In particular, the government pledged to cut personal income taxes to stimulate growth and to support private enterprise.

It is no truism to say that the luxury sector's growth outlook highly depends on the trajectory of the Chinese consumer environment. Chinese nationals account for more than 30% of the spending in the luxury goods industry and more than 70% of the growth.

Chinese consumer confidence, which has been a good leading indicator for luxury goods performance trends appears to have rolled over. The weakness in Chinese consumer confidence has weighed on the sector of late, and is likely to remain a drag going forward if Chinese consumption trends continue to slow.

CHART 5: LUXURY GOODS SECTOR: CHINESE NATIONALS ACCOUNTED FOR 2% OF SPENDING IN 2003 THEIR SHARE HAS RISEN TO 32% IN 2017



Source: Altagamma, Bain & Company, Morgan Stanley Research

Chinese retail sales growth has also been moderating in recent months, leading to market concerns over a more persistent slowdown in China's consumption. These concerns led to a correction in share prices for luxury groups such as LVMH and Kering in the third quarter of 2018.

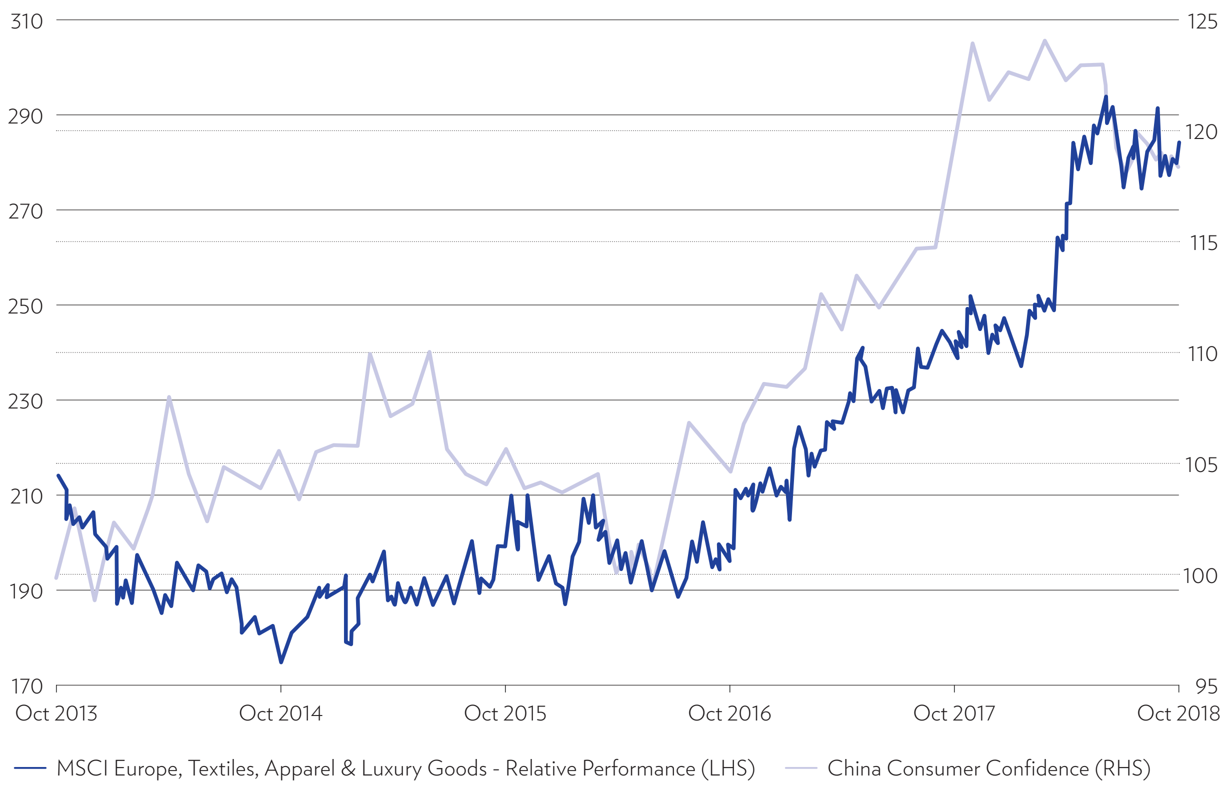
We believe China is going through a self-induced slowdown as the economy transforms from investment-led to consumption-led growth. Reforms are currently taking a back seat in favour of selective and measured easing but still expect 6.5% growth this year, before a slowdown to 6.2% in 2019.

It is important to realise that the luxury sector is coming from a position of strength. Luxury powerhouses like LVMH, Kering and Hermes reported peak margins in 2017 and are still seeing positive earnings revisions.

Following a strong recovery since 2015, it is reasonable to expect global luxury consumption to slow in the near-term from a high base and moderating Chinese demand.

Yet we remain upbeat in the longer term premised on structural growing demand from Chinese millennials and a more prominent female presence in the luxury market as we will cover in our Womenomics section.

CHART 6: CHINESE CONSUMER CONFIDENCE HAS TRADITIONALLY BEEN A GOOD LEADING INDICATOR FOR THE EU LUXURY GOODS SECTOR



Source: MSCI, Morgan Stanley Research

GLOBAL LUXURY - A HISTORY LESSON FROM ASIA

Global luxury demand has waxed and waned together with the fortunes of the global economy, and Asian demand has played a significant role.

During the **1980s-1990s**, the Japanese were the number one luxury consumers in the world. As the country enjoyed an economic boom, luxury handbags and designer apparel became widespread and the love affair with luxury endured even as the bubble economy crashed in the 1990s. Uniquely in Japan, luxury goods signified a middle-class lifestyle and had a reputation for high quality and better durability.

The 1990s was also notable for the sustained rapid growth of China, as adoption of market-oriented and globalising reforms paid off in rapid growth and poverty reduction (Chart 7). In the early 1990s, luxury brands officially started to enter China through the channels of foreign-invested luxury hotels, such as the Peninsula Hotel, the Shangri-La Hotel, and the China World Hotel in Beijing.

These hotels started promoting and selling luxury goods and services made by the top foreign brands in the sector - Louis Vuitton opened its store at the Peninsula Hotel, along with Giorgio Armani, while Burberry chose to enter the Chinese market through the Shanghai Hilton.

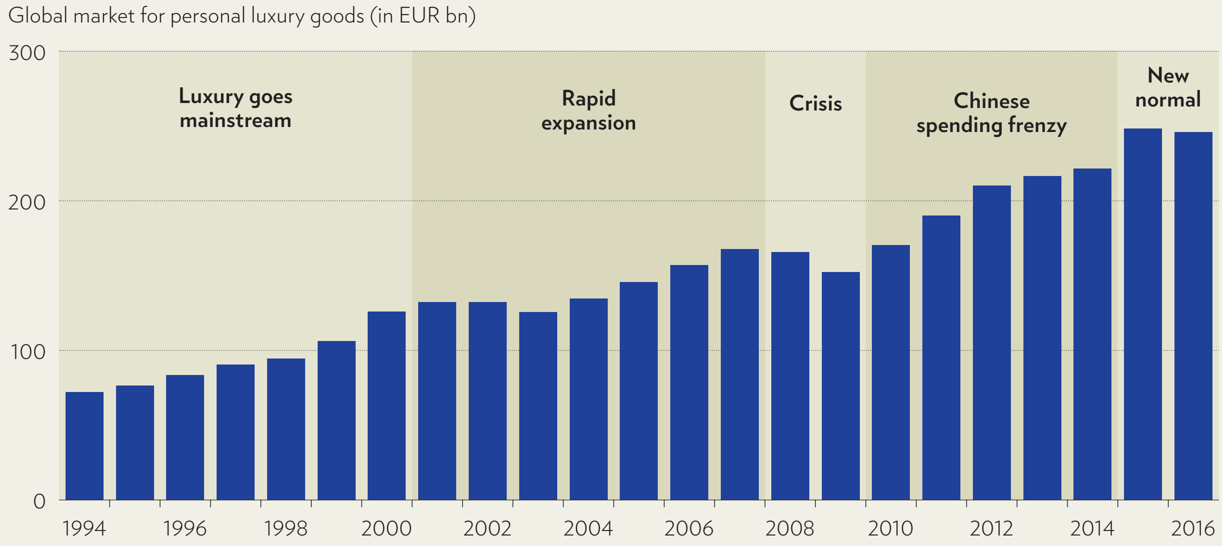
The 2000s: China's membership in the World Trade Organization (WTO) in 2001 further supported the development of luxury brands, allowing them to set up direct sales through flagship stores. Top luxury brands that set up include Versace (2000), Tiffany (2001), Patek Philippe, which opened its main flagship store in Shanghai in 2005, and Valentino, which opened its first store in Beijing in the same year[3].

CHART 7: GROWTH RATES OF REAL GDP/PERSON (% PER YEAR)

	1870-1913	1913-1950	1950-1973	1973-1990	1990-2000
Africa	0.57	0.92	2.00	0.14	0.14
Asian Tigers	0.79	0.29	5.98	6.13	4.83
China	0.10	-0.62	2.86	4.77	6.31
India	0.54	-0.22	1.40	2.60	3.87
Latin America	1.82	1.43	2.58	0.69	1.46
Western Europe	1.33	0.76	4.05	2.00	1.76
United States	1.82	1.61	2.45	1.96	1.95

Source: Maddison (2003)

CHART 8: GLOBAL MARKET FOR PERSONAL LUXURY GOODS



Source: Bain & Company

[3] Luxury the Chinese Way - The Emergence of a New Competitive Scenario

CRAZY RICH ASIAN DEMAND

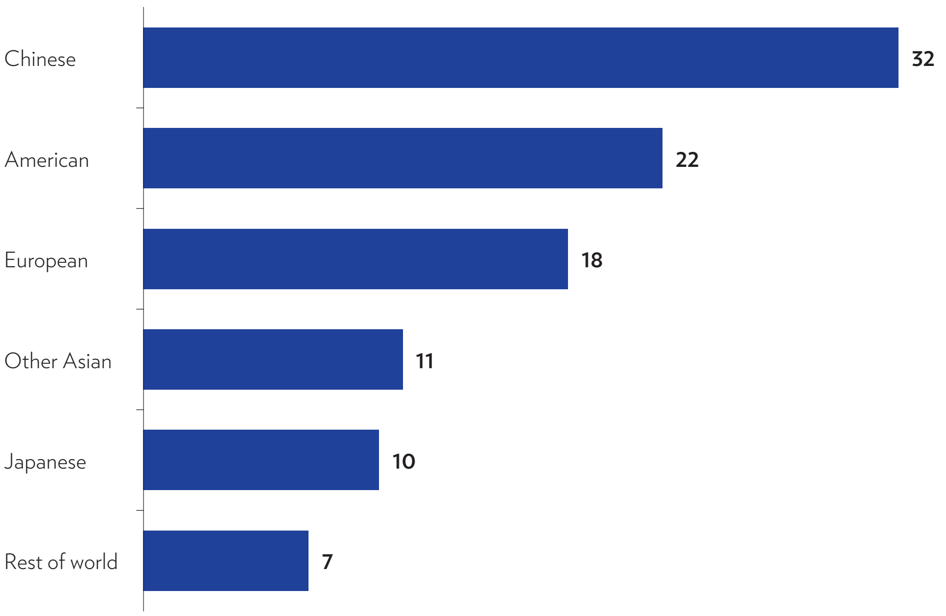
Since 2010, the Chinese luxury market has started to take a strategically critical position in the global luxury scenario, accounting for almost one third of global luxury goods consumption, and by some estimates almost half.

While Asia's wealthy consumers will maintain their leading role in the growth of the luxury goods market, their tastes have evolved and matured. In the next decade, a rising proportion will be younger (40% Gen-Z and milliennials), digitally-connected, price-sensitive, socially-conscious and female.

Connecting to future generations of Asian HNWIs will require different strategies to the past. Recognizing and adapting ahead of time will be growth imperatives not only for luxury brands but for the financial services industry at large.

CHART 9: CHINESE NATIONALS LOVE LUXURY

Share of global luxury spending in 2017 (%)



Source: Bain & Company

JULIUS BAER LIFESTYLE INDEX

(LUCKY) NUMBER 8

For the eighth year, we present our Julius Baer Lifestyle Index which measures the cost for a basket of goods and services typically consumed by HNWIs in Asia.

2018 has been a fortuitous year for the luxury goods market. The price performance of our Lifestyle index reflects this. In aggregate, our 2017/2018 index rose by 3.34% in local currency terms and 2.91% in US dollar terms.

This bested regional inflation and also qualifies as our index's best yearly price growth on record, extending its historical upward trajectory.

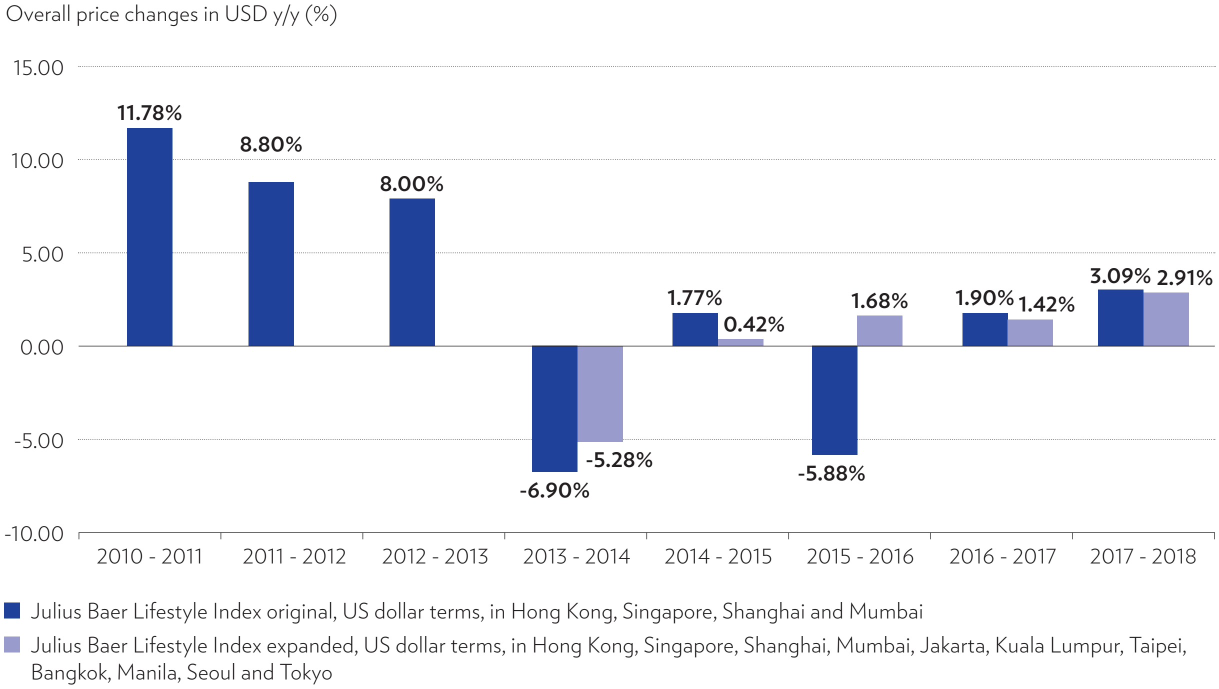
This is testament to Asia's insatiable demand for luxury goods and services and cements its position as the dominant region for luxury consumption.

CHART 10: INFLATION VS INDEX

	Hong Kong	Singapore	Shanghai	Mumbai	Taipei	Jakarta	Manila	Seoul	Kuala Lumpur	Bangkok	Tokyo	Average
2017 Consumer price inflation	1.5%	0.6%	1.5%	3.3%	0.6%	3.8%	3.2%	1.9%	3.8%	0.7%	0.5%	**1.95%**
Julius Baer Lifestyle Index y/y Local Currency	3.0%	2.7%	4.1%	5.1%	2.8%	6.5%	9.5%	3.9%	-3.2%	1.0%	1.3%	**3.34%**
Julius Baer Lifestyle Index y/y USD	2.2%	5.4%	4.8%	-0.1%	2.4%	-1.6%	2.9%	5.6%	3.4%	4.9%	2.0%	**2.91%**

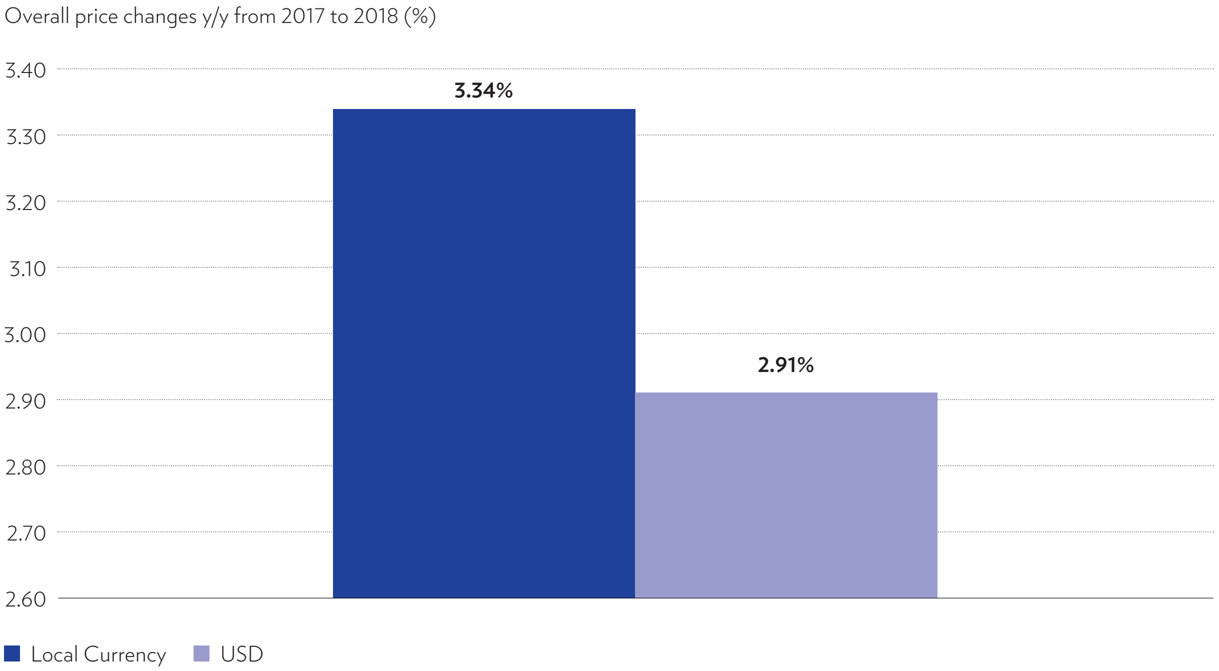
Source: Julius Baer

CHART 11: JULIUS BAER LIFESTYLE INDEX, CHANGES IN PRICES OF GOODS AND SERVICES Y/Y, 2010 TO 2018, US DOLLAR TERMS



Source: Julius Baer

CHART 12: JULIUS BAER LIFESTYLE INDEX, CHANGES IN PRICES OF GOODS AND SERVICES Y/Y, 2017 TO 2018, LOCAL CURRENCY AND US DOLLAR TERMS



Source: Julius Baer

FROM #MILLENNIALS TO #WOMENOMICS

In last year's report, we looked at the consumption habits of millennials and the impact on the whole luxury culture. This group accounts for around 30% of the sector's sales in China and are as a whole less sensitive to wider economic factors but more attuned to luxury experiences.

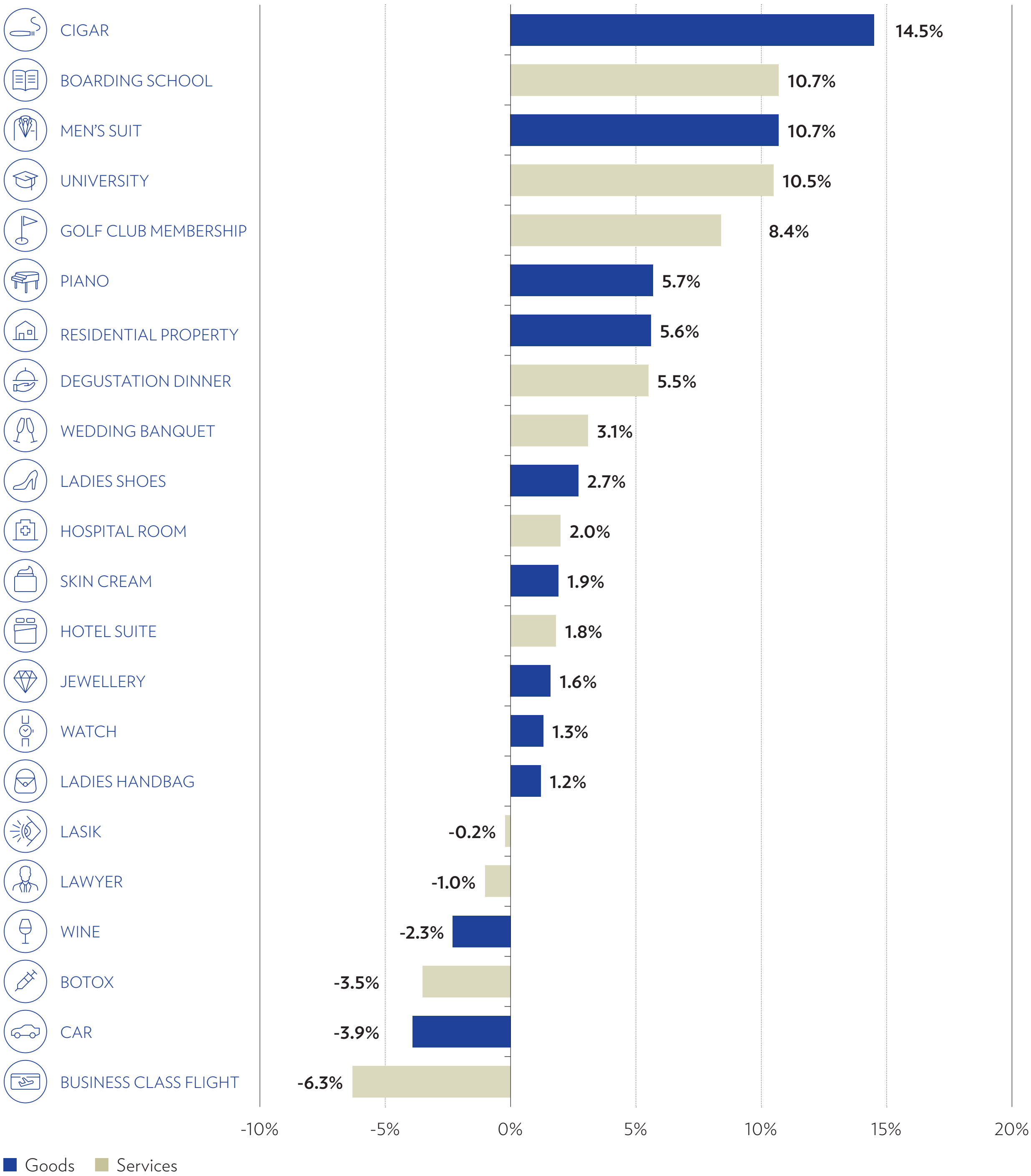
Last year, we added degustation dinner to our lifestyle index, to increase the experiential luxury weighting and reflect the generation's preference for experiences and lifestyle enhancements over physical things.

This year, we turn our attention to the she-conomy or the power of the female dollar in the luxury market. It is a well-known fact that women have tremendous spending power and it is growing.

According to Bain & Company, women now account for half of Chinese luxury spending, up from 10% in 1995. In Japan, an astonishing 85% of women own a Louis Vuitton product. Our womenomics segment covers this important demographic in detail.

We also curated a special His & Hers Index this year to compare the prices of several luxury goods in relation to personal adornment and grooming – wrist accessory, outfit, bags, shoes and fragrance – specific to each gender across all Asian cities. More can be found in our His & Hers Index section.

CHART 13: PRICE CHANGES OF JULIUS BAER LIFESTYLE INDEX ITEMS, Y/Y LOCAL CURRENCY TERMS (%)

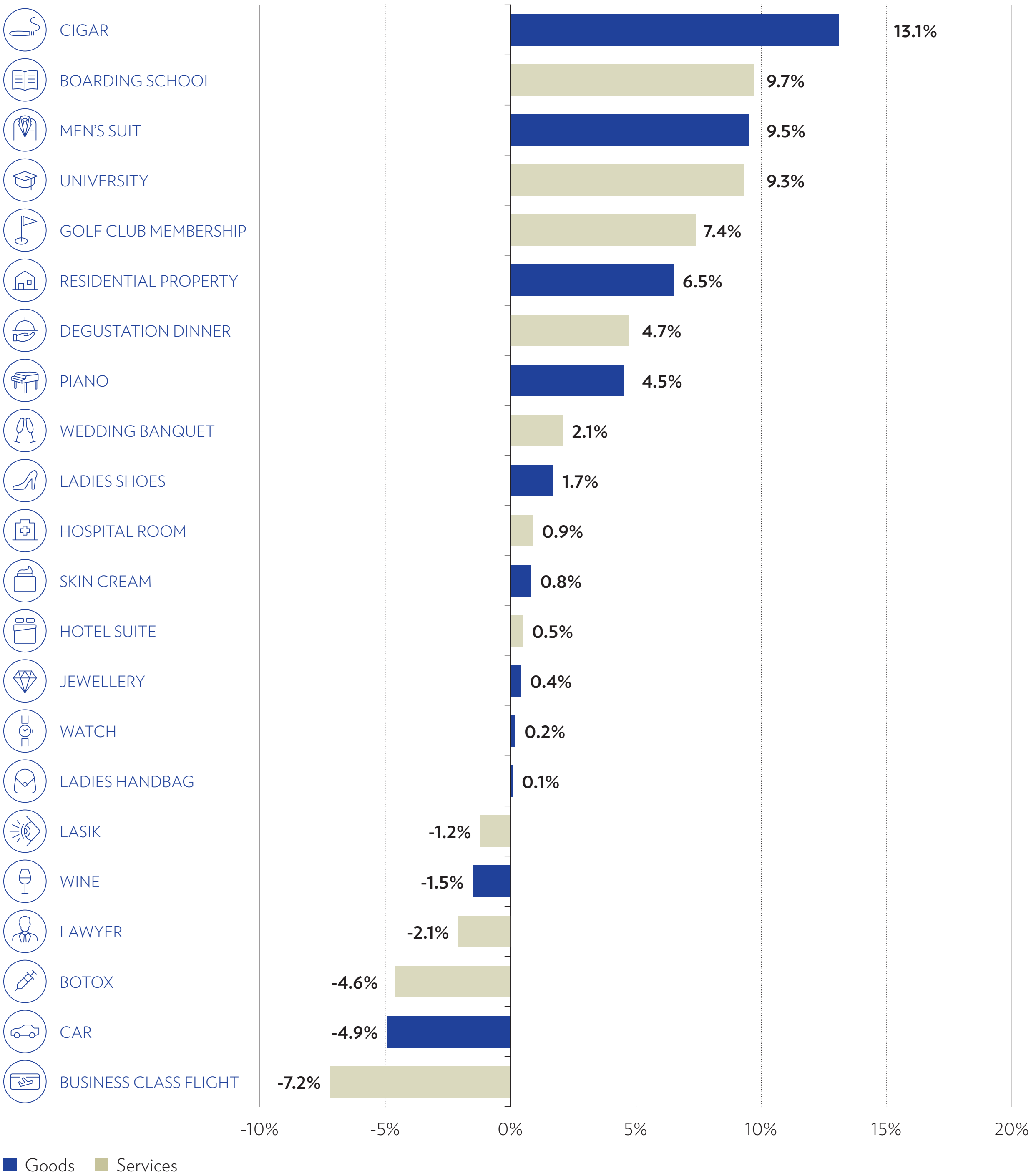


Source: Julius Baer

In local currency terms, the prices for 72% (16 out of the 22) of our index items rose. The largest price increases come from cigars, boarding school fees and men's suits. Cigar prices rose on limited supply while boarding school fees increased by even more than they used to (+9% vs +15% over the past 5 years) due to a surge in demand from pupils coming from China, Russia and the Middle East.

Conversely, costs for business class flights and cars fell by the most due to rising competition and generous subsidies for hybrid equivalents. We elaborate more on these in our focus items section.

CHART 14: PRICE CHANGES OF JULIUS BAER LIFESTYLE INDEX ITEMS, Y/Y US DOLLAR TERMS (%)



Source: Julius Baer

In US dollar terms, the same number of index items, namely 16 (or 72%) out of 22 rose in value given modest currency changes during our measurement period.

HEADS OR TAILS (WINDS)

Last year, we noted specific influences on price trends for luxury goods in Asia. These include recovering consumer confidence in China and Chinese customers 'reshoring' luxury purchases they once made on overseas trips back home. These dynamics largely remain although there have been additional developments.

CHINA TIGER

The Chinese economy is slowing. With the global luxury sector reliant on Chinese demand for over a third of sales, any substantive decline in Chinese consumer confidence, while not our base case, has the potential to harm luxury sales. We do project a moderation of global luxury consumption considering the sector's rebound since 2015, but not a contraction.

RESHORING

Although the prices of most luxury goods remain higher in China than in much of the rest of the world, the price gap has decreased following tax cuts and global price harmonisation by luxury brands.

Our reshoring thesis has been strengthened following enhanced supervision from customs authorities including a crackdown on daigou (individual reseller) channels, passing of a new e-commerce law and tighter regulations. These are all part of government efforts to boost domestic consumption.

All-in-all, we expect Chinese consumers to shift more of their purchases towards official onshore sales channels which will benefit larger luxury companies' domestic businesses and bolster demand in onshore markets.

CHART 15: DAIGOU AND CHANNELS BECOME SUBJECT TO CHINA'S E-COMMERCE LAW IN JANUARY 2019

Summary of important channels for retail goods

Imported goods				
Channel	Regular imports	Daigou		CBEC
Types	Import by brands/licensees	Carried luggage	Personal parcels	Primarily bonded warehouse
Tax	Import tarrif, VAT, consumption tax	Postal tax		VAT, consumption tax
Regulation	Customs Law	e-commerce law (post Jan 2019)		EC Law (post Jan 2019), CBEC policies
Required documents	Import contract, invoice, packing list, bill of lading, delivery order, import permit	Not applicable currently, registration with State Administration for Industry & Commerce and tax bureau required post Jan 2019		Electronic info (receipt, logistics), declaration list, identification of consumers
Examples	Offline stores	Taobao, Wechat		Kaola, Tmall Global, JD Worldwide

Source: China Customs, State Council, CFDA, Ministry of Commerce, Ministry of Finance, State Administration of Taxation

CHART 16: CURRENCY

	Hong Kong	Singapore	Shanghai	Mumbai	Taipei	Jakarta	Manila	Seoul	Kuala Lumpur	Bangkok	Tokyo	Average
	HKD	SGD	CNY	INR	TWD	IDR	PHP	KRW	MYR	THB	JPY	
2018 FX Rates	7.85	1.36	6.83	68.61	30.63	14,414.00	53.10	1,118.70	4.07	33.26	111.47	
2017 FX Rates	7.79	1.39	6.85	64.44	30.21	13,312.24	49.88	1,128.85	4.30	34.23	111.57	
Change	-0.7%	2.0%	0.2%	-6.1%	-1.4%	-7.6%	-6.1%	0.9%	5.7%	2.9%	0.1%	**-0.9%**

Source: Bloomberg Finance L.P, Julius Baer

CURRENCIES

During our period of measurement (July 2017 to July 2018), the Asian currencies complex was relatively stable with an average movement of -0.9% against the USD[4].

Currency movements are an ever-present influence on luxury goods prices. For example, Chinese consumers are more inclined to spend domestically on luxury goods when there is weakness in the Chinese yuan.

Luxury goods companies sometimes address currency movements to maintain pricing structures between countries. For example, following the UK's EU membership referendum in June 2016, the British pound depreciated by 18% against the US dollar. Luxury brands responded by increasing prices, and by March 2017, prices in the UK were 5% higher for like-for-like products than they were before the referendum[5].

Yet ultimately, luxury brands' ability to raise prices also depends on global macroeconomic conditions, consumer demand and brand strength. Luxury companies are typically cautious about implementing price hikes although decreasing regional price gaps is usually well received and helps to drive sales.

E-COMMERCE

Last year, we looked at the impact of the digital world on millennials and found this to be profound as an influence on their purchasing choices. According to the Luxury Institute, six in ten affluent millennials in the US read user-generated product reviews when shopping for luxury goods, 55% have learned about a product in a store, but preferred to purchase it online, and 18% recommend luxury brand purchases through social network sites.

The rapid growth of e-commerce and luxury online marketplaces will create greater pricing transparency going forward, especially in Asia. According to Bain & Co, just 8% of Chinese luxury purchases are currently made online, but that figure is expected to increase dramatically, driven by millennials, a growing middle class and greater workforce participation among women.

SCARCITY

Scarcity is paramount for luxury brands because at the root of the very notion of luxury, supply must never outgrow demand. For the first time, we had difficulty locating our bottle of high-end wine, the Chateau Lafite Rothschild 2000 in some cities. This is especially the case for older vintages as almost all the high-priced wines around the world are produced in small amounts.

Scarcity was also an issue for our top-end Cuban cigars (Cohiba Siglo VI) where retailers again reported shortages after four consecutive years of poor tobacco harvests and rising demand. This was the main contributing factor to another spike in cigar prices this year in our index.

POLICY MATTERS

Governments around the region continue to do their level best to take some heat out of burgeoning property markets. Yet overall, this has had limited impact on the high-end market, which continues to be driven by foreign demand.

CHINA

China continues to release demand-side regulatory measures selectively to cool the residential market. Thus far, these have had limited impact on Tier One cities of Beijing and Shanghai where residential property prices continue to surge higher. We do not expect widespread policy loosening by the government given still high home prices and relatively low inventory levels as it continues to aim at preventing a run-up in property prices.

[4] Following our index measurement period, the picture has deteriorated especially for emerging market currencies in Asia. The Indian rupee, Indonesian rupiah and the Philippine peso have been hit hardest and have tested multi-year lows due to concerns over higher external deficits. On the other hand, the Thai baht and Malaysian ringgit have seen less currency pressure on account of current account surpluses. The Chinese yuan has also depreciated significantly. However, the yuan depreciation could also be regarded as a sign that the Chinese central bank is accepting a weaker currency given its direct management by the government-run central bank.

[5] Deloitte BenchMarque

HONG KONG

Hong Kong raised the prime lending rate for the first time in twelve years in October 2018, ending a prolonged period of ultra-low interest rate environment. Higher borrowing costs will affect home-buying sentiment and higher capitalisation rates will pose downside risk to asset values. That said, we do not expect a sharp decline in real estate prices thanks to healthy household balance sheets and inadequate near-term housing supply, especially at the top-end of the market.

CHART 17: CENTALINE CITY LEADING INDEX (CCL)

Source: Centaline

SINGAPORE

The Singapore government raised Additional Buyer's Stamp Duty (ABSD) rates and tightened loan-to-value (LTV) limits on residential property purchases this year in an effort to cool the property market. This came after official data which showed private home prices had risen to their highest point in four years.

Similar to Hong Kong and Shanghai, demand for luxury homes in Singapore is driven by foreigners, especially from China, Malaysia and Indonesia. For the global elite, luxury homes in Singapore remain relatively affordable than in cities like Hong Kong or New York for a similar if not higher standard of living.

CHART 18: PRIVATE RESIDENTIAL PROPERTY PRICE INDEX

Source: Urban Redevelopment Authority

BUSINESS CLASS FLIGHTS

Global air traffic is projected to reach 7.2 billion passengers by 2035, driven by Asia's rising middle class population. This year, we continue to shine the spotlight on business class flights originating from 11 Asian cities to New York and London.

Prices fell in most of the cities this year, with only Kuala Lumpur (+6.9%) registering gains in USD terms. The sharpest declines came from Shanghai (-20.2%), Manila (-14.4%), Taipei (-13.8%), and Seoul (-13.2%). Travellers heading to New York or London from Seoul will find the cheapest business class tickets at USD 3,484, whereas travellers beginning their journey in Hong Kong will have to pay top dollar (USD 5,909). The average cost regionally is USD 4,386, down 7.6% from 2017.

NO LACK OF DEMAND...OR SUPPLY

Demand in Asia for travel is robust growing at nearly 9% led by China and India in 2017[6]. Despite this, fares have not risen in tandem as airlines continue to chase business and new capacity floods the region.

GREATER CHINA COMPETITION

The Chinese aviation industry continues to register exponential growth, with both supply and demand rising in the low double-digits. Over the past 13 years Chinese airlines have opened 102 international destinations to secure traffic rights and airport slots. This has been a success for market share as routes between the US and China overtook that of US carriers in 2014. However, China's 'one airline, one route' program, and the use of subsidies to support operations has led to significant overcapacity in the Greater China region. This has kept a lid on flight prices and explains to some extent the fall in business class ticket prices out of Shanghai, Hong Kong and Taipei.

SINGAPORE

Singapore Airlines (the leader in corporate travel in Singapore) has invested heavily in improving its business-class service in an effort to retain its premium brand and its most profitable passengers. The airline is retrofitting its fleet of A380s to include more premium economy seating as well as an improved product in all cabin classes. This has helped the airline maintain its pricing power for international business fares.

ULTRA-LONG-HAUL FLIGHTS AND PREMIUM ECONOMY

Ultra-long-haul flights are also making a comeback as fuel-efficient aircraft and greater business travel demand make it possible for airlines to revive such flights. From a pricing perspective, they pose a threat to rivals operating out of hubs like Tokyo and Seoul. For example, average ticket prices for airlines offering single stopover flights fell by 15% between 2016 and 2017 when United Airlines began its non-stop Singapore-Los Angeles flights.

Premium economy has been gaining traction with Asian carriers recently and is at the margin cannibalising business class demand for the more price sensitive corporate traveller. In Singapore, corporate demand for such seats rose 157% y/y between 2016 and 2017, albeit from a low base.

TAIPEI

In 2018, 17 airlines added 30 new routes, such as flights to Paris, Vancouver and Taipei's Taoyuan airport. Such heavy competition from international and Chinese carriers have squeezed prices in Taipei.

[6] Global Business Travel Forecast 2018 from American Express Global Business Travel

BUSINESS CLASS FLIGHTS

CHART 19: RANKING BY PRICE (DESCENDING)

	2018 cost (USD)	**2018 vs 2017 cost change**	2018 cost (Local currency)	**2018 vs 2017 cost change**
Hong Kong	5,909	-5.67%	46,381	-4.99%
Tokyo	5,495	-6.27%	612,555	-6.35%
Singapore	5,072	-1.32%	6,906	-3.27%
Shanghai	4,461	-20.19%	30,486	-20.33%
Average	4,386	-7.19%		-6.27%
Taipei	4,379	-13.75%	134,109	-12.57%
Mumbai	4,038	-7.71%	277,076	-1.74%
Kuala Lumpur	4,027	6.89%	16,369	1.16%
Jakarta	4,001	-0.56%	57,667,800	7.66%
Manila	3,737	-14.37%	198,463	-8.84%
Bangkok	3,648	-3.00%	121,313	-5.75%
Seoul	3,484	-13.17%	3,897,650	-13.95%

Source: Julius Baer

PROPERTY

Luxury residential properties continue to represent a significant proportion in the portfolios of Asian HNWIs.

Over the year, residential property prices continued their upward climb on the back of attractive interest rates and limited supply. Our index rose by 5.6% in local currency terms (+6.5% in USD terms). This is largely attributable to outsized growth in local currency terms in Shanghai, Manila, Seoul, and Hong Kong of 18.1%, 15.6%, 8.8%, and 6.5% respectively. In contrast, Tokyo was the only city to register a decline in this period (-3.1%).

Hong Kong, Tokyo, and Singapore remain the three most expensive cities for property in Asia, whereas Kuala Lumpur, Manila, and Jakarta are the most price competitive cities.

MOST EXPENSIVE CITY: HONG KONG

Hong Kong retains its top spot as the most expensive city to purchase a high-end property in Asia. Over the past year, property prices continued to climb, reaching USD 54,307 psm, outpacing Tokyo (USD 40,878 psm). Strict capital controls and changes in tax rules have not deterred Chinese capital inflows. This, coupled with limited supply of luxury properties, led prices to rise.

However, the recent prime rate hike by major lenders should lead mortgage rates to rise, which would affect property market sentiment. The extent of the negative impact on home-buying sentiment would depend on the magnitude of future rate hikes.

MOST COMPETITIVE CITY: KUALA LUMPUR

Although property prices in Kuala Lumpur remained flat (+0.1%) in local currency terms, they gained 9.3% in USD terms due to a stronger ringgit. Sentiment towards Kuala Lumpur's property market is improving. Buyers are encouraged by the strength in Malaysia's labour market and economy, which has given developers the impetus to organise nationwide roadshows.

GREAT(ER) CHINA PROPERTY

Cooling measures have failed to quell the red-hot housing market in Shanghai. New government price controls for luxury developments have resulted in a dearth of luxury residential properties in Shanghai in the past few months. The lack of supply of new projects has driven homebuyers towards completed developments, thus driving their prices upwards.

We do not expect widespread policy loosening and rather expect continued fine-tuning of policy measures as the overall objective remains one of curbing property speculation.

MANILA: HIGH ROLLERS AND HIGH-RISE

The arrival of offshore Chinese gaming companies in Manila has inadvertently led to the city's housing boom. In addition to migrant casino workers, Chinese high rollers are also splashing out on high-end properties within the city. The Makati district is among the greatest beneficiaries of this influx of foreign money due to its proximity to the gaming sites.

PROPERTY

CHART 20: RANKING BY PRICE (DESCENDING)

	2018 cost (USD)	**2018 vs 2017 cost change**	2018 cost (Local currency)	**2018 vs 2017 cost change**
Hong Kong	54,307	5.26%	426,254	6.45%
Tokyo	40,878	-1.18%	4,556,667	-3.05%
Singapore	26,528	6.88%	36,125	2.79%
Shanghai	25,442	19.03%	173,863	18.09%
Taipei	22,817	5.24%	698,775	3.68%
Average	20,260	6.47%		5.64%
Seoul	14,962	12.16%	16,738,007	8.81%
Mumbai	11,181	2.01%	767,146	4.47%
Bangkok	10,224	10.76%	340,000	4.92%
Jakarta	7,093	-7.28%	102,231,628	0.14%
Manila	5,750	8.88%	305,333	15.63%
Kuala Lumpur	3,680	9.45%	14,962	0.07%

Source: Julius Baer

CAR

OVERVIEW

Luxury sedan prices fell an average of 4.9% in USD terms, with the largest declines in Kuala Lumpur and Manila. Singapore, Taipei, Seoul, and Bangkok registered modest gains, ranging from 2% to 5% in part due to the addition of special equipment. Singapore remains the most expensive city due to ownership licence fees and import duties, while Kuala Lumpur has unseated Tokyo as the cheapest city to purchase a luxury vehicle.

DEMAND

Sales of luxury cars saw yet another year of strong growth in 2017 on the back of growing prosperity and changing consumer habits in the region. China has dethroned the US as the world's largest luxury car market, accounting for more than 30% of overall global sales of luxury cars and the majority of sales growth. China's move to cut auto import tariffs on 1 July 2018 to 15% from 25% (for non-US built vehicles) as part of broader efforts to encourage imports will generate additional demand.

THE GREEN REVOLUTION

According to the World Health Organization (WHO), air pollution causes the deaths of over 4.5 million Asians per year. Governments across Asia are thus intensifying efforts in tackling a major source of pollution - vehicular emissions. Increased taxes on emissions, and tax breaks for electric vehicles are but a few measures employed by lawmakers to achieve this objective.

Whether enticed by incentives or heeding the call to 'go green', global consumers purchased more than one million electric vehicles last year. In Asia, this trend is set to continue. China is poised to lead the pack and demand for electric vehicles is expected to triple by 2022.

MOST EXPENSIVE CITY: SINGAPORE

Once again, Singapore took the top spot as the most expensive city to purchase a BMW 7-series sedan. The replacement of the Carbon-Emissions Vehicle Scheme by the New Vehicular Emissions Scheme also resulted in higher taxes on the emissions-heavy sedan. Overall, prices climbed higher by 4.3% in USD terms to USD 436,105.

MOST COMPETITIVE CITY: KUALA LUMPUR

The Malaysian government's generous incentives for plug-in hybrid electric vehicles (PHEVs) caused a precipitous drop in prices. This in turn led BMW to phase out the 740Li model, replacing it with the 740Le plug-in hybrid model. A strengthening ringgit partially negated the effects of the incentives. Compared to last year, prices fell 24.3% in MYR terms to MYR 138,971.

CAR

CHART 21: RANKING BY PRICE (DESCENDING)

	2018 cost (USD)	**2018 vs 2017 cost change**	2018 cost (Local currency)	**2018 vs 2017 cost change**
Singapore	436,105	4.32%	593,888	2.25%
Shanghai	268,957	-7.38%	1,838,000	-7.55%
Mumbai	242,672	-0.55%	16,650,000	5.88%
Hong Kong	235,062	-7.86%	1,845,000	-7.19%
Average	218,834	-4.94%		-3.93%
Taipei	217,796	2.65%	6,670,000	4.06%
Manila	193,782	-19.38%	10,290,000	-14.18%
Bangkok	192,416	2.92%	6,399,000	0.00%
Jakarta	153,254	-7.22%	2,209,000,000	0.45%
Tokyo	151,700	0.09%	16,910,000	0.00%
Seoul	176,455	2.36%	197,400,000	1.44%
Kuala Lumpur	138,971	-24.32%	564,947	-28.38%

Source: Julius Baer

JEWELLERY

Jewellery and gems are among the most favoured passion investments among HNWIs in Asia. According to luxury auction house Sotheby's, Asian clients account for about a third of global high-end jewellery sales. China and India comprise two of the world's largest jewellery markets, with a combined market share of close to USD 160 bn.

In line with our previous year's findings, the Cartier Love Bracelet remains the most expensive in Shanghai (USD 48,143) due to high import tariffs on luxury jewellery (approximately 40%). On the other end, Kuala Lumpur (USD 41,818) replaces Hong Kong as the most price competitive market. This arose from the twin effects of higher prices in Hong Kong and marked declines in Kuala Lumpur.

On average, prices in the region were flat year-on-year at (-0.4%) in USD terms although there were intra-city fluctuations. Hong Kong saw the most significant price gain (+9.5%), whereas Mumbai experienced the biggest decline (-6.1%).

What justifies the price tag of a luxury jewellery piece? A prestigious brand, the intricacy of the craftsmanship as well as the quality of the precious stones, all enhance its desirability. Market trends are significant too. For instance, natural pearls went through a spectacular growth a few years ago, though prices have since cooled off.

Looking at Asian demand, the rise of mainland Chinese buyers over the past decade bears close watching. Despite China's anti-corruption drive, the impact on domestic spending on high-end jewellery has been limited.

According to Euromonitor, luxury jewellery sales in China increased by 6.6% y/y to CNY 14.9 bn (USD 2.17 bn) in 2017. Many mainland Chinese continue to buy rare pieces that include top-of-the-line diamonds, coloured gemstones and jadeite to diversify their investment portfolios amid a volatile global economy. Vintage signed jewellery has also garnered investor interest, given their appreciation in value in recent times.

JEWELLERY

CHART 22: RANKING BY PRICE (DESCENDING)

	2018 cost (USD)	**2018 vs 2017 cost change**	2018 cost (Local currency)	**2018 vs 2017 cost change**
Shanghai	48,143	-0.42%	329,000	-0.60%
Manila	47,457	2.48%	2,520,000	9.09%
Seoul	47,376	0.91%	53,000,000	0.00%
Jakarta	45,581	1.13%	657,000,000	9.50%
Average	45,168	0.44%		1.55%
Tokyo	45,731	5.22%	5,097,600	5.12%
Bangkok	44,804	-3.55%	1,490,000	-6.29%
Singapore	44,426	2.02%	60,500	0.00%
Taipei	44,082	-1.36%	1,350,000	0.00%
Mumbai	43,725	-6.07%	3,000,000	0.00%
Hong Kong	43,700	9.50%	343,000	10.29%
Kuala Lumpur	41,818	-4.96%	170,000	-10.05%

Source: Julius Baer

DEGUSTATION DINNER

A region that prides itself on the variety and fusion of cuisine, Asia is gaining momentum in the gastronomy scene. Out of the World's 50 Best Restaurants of 2018, 7 were from Asia, a marked improvement of 4 from the previous year. The recent inclusion of the Michelin food guides in Asia also underscores the region's status in the global culinary scene.

Yet, in an era marked by competition from the World's 50 Best Restaurants, social media influencers and crowdsourced review platforms like TripAdvisor, how much weight do Michelin stars carry? Responses from restauranteurs have been mixed. It appears that outside of France, the shine of the Michelin star is not what it used to be; though the famed stars have helped place restaurants under the international spotlight.

And then, of course, there's the price effect on diners. Understandably, restaurants will milk Michelin stars for their worth. In 2018, Singapore displaced Hong Kong as the most expensive city in Asia to enjoy a fine dining meal (USD 283). The reason behind the exorbitant price tag? Besides factoring in the cost of quality ingredients airfreighted around the world, rental cost is a major issue. Higher fixed costs such as labour pricing and foreign labour restrictions present challenges as well.

On the other end, Manila remained the most price competitive as per the previous year. Overall, fine dining prices have risen by 4.7% y/y in USD terms, with the most marked change in Bangkok (+48.7%). The reason behind the steep price appreciation in Bangkok was due to the change in the basket of restaurants. Following the launch of the inaugural Michelin food guide in Bangkok in December 2017, Sra Bua was replaced by two-Michelin starred restaurants, Le Normandie and Mezzaluna, in the basket of restaurants this year, aligning Thailand with the selection criteria.

Pertaining to fine dining trends in the region over the year, the rising popularity of chef's tables is noteworthy. When it comes to offering memorable moments, the chef's table is the front row seat to culinary theatrics. Similar to the Japanese omakase concept, it involves access to the chefs, who add value to the luxury dining experience. Part of enhancing the fine dining experience is to impress on patrons the stories behind the cuisines, which include details of the preparation process and source of the ingredients. This enhances the exquisiteness of the gastronomic encounter.

Evidently, rising affluence in the region means that fine dining will remain a key aspect of Asian HNWIs' consumption habits. Classic fine dining restaurants by stalwarts such as Joël Robuchon should continue to see healthy demand as indulgence in fine cuisine is seen as part of aspirational living. Fine dining is a multi-sensory experience that will continue to attract patrons who appreciate it.

DEGUSTATION DINNER

CHART 23: RANKING BY PRICE (DESCENDING)

	2018 cost (USD)	**2018 vs 2017 cost change**	2018 cost (Local currency)	**2018 vs 2017 cost change**
Singapore	283	0.07%	386	-1.91%
Shanghai	281	0.18%	1,918	0.00%
Hong Kong	266	-7.31%	2,088	-6.64%
Taipei	258	5.83%	7,895	7.29%
Seoul	235	1.88%	262,500	0.96%
Bangkok	207	48.66%	6,886	44.45%
Average	201	4.72%		5.51%
Tokyo	200	0.09%	22,330	0.00%
Kuala Lumpur	143	16.27%	581	10.04%
Mumbai	120	5.87%	8,240	12.72%
Jakarta	119	-7.64%	1,714,000	0.00%
Manila	100	-11.97%	5,327	-6.29%

Source: Julius Baer

CHART 24: CITY RANK BY INDIVIDUAL ITEM IN USD TERMS

	Hong Kong	Singapore	Shanghai	Mumbai	Taipei	Jakarta	Manila	Seoul	Kuala Lumpur	Bangkok	Tokyo
BUSINESS CLASS FLIGHT	1	3	4	6	5	8	9	11	7	10	2
RESIDENTIAL PROPERTY	1	3	4	7	5	9	10	6	11	8	2
WEDDING BANQUET	2	5	3	6	9	10	8	4	7	11	1
HOTEL SUITE	2	5	9	7	4	3	8	6	11	10	1
LASIK	4	3	2	10	9	8	7	11	5	1	6
HOSPITAL ROOM	3	4	1	5	10	11	9	6	8	2	7
GOLF CLUB MEMBERSHIP	2	4	7	8	5	11	1	6	9	10	3
LAWYER	1	3	2	10	6	9	11	4	7	5	8
WATCH	8	6	1	9	4	5	7	2	10	3	11
LADIES HANDBAG	6	5	1	11	10	4	3	2	9	7	8
WINE	10	5	1	7	4	6	3	9	11	2	8
JEWELLERY	10	7	1	9	8	5	2	3	11	6	4
MEN'S SUIT	8	5	7	11	6	10	2	4	3	1	9
BOTOX	1	5	4	11	6	8	10	9	2	7	3
PIANO	6	8	7	5	1	2	4	9	11	3	10
CAR	4	1	2	3	5	9	6	8	11	7	10
CIGAR	7	4	2	10	5	6	3	8	9	1	11
LADIES SHOES	8	4	11	10	5	9	7	1	2	6	3
SKIN CREAM	11	4	1	6	3	10	9	5	7	2	8
DEGUSTATION DINNER	3	1	2	9	4	10	11	5	8	6	7

Source: Julius Baer

CHART 25: CHANGE IN RANKING 2017/2018

	2018 Rank	2017 Rank	Movement
Shanghai	1	2	↑1
Singapore	2	3	↑1
Hong Kong	3	1	↓2
Tokyo	4	5	↑1
Taipei	5	4	↓1
Seoul	6	6	-
Bangkok	7	7	-
Mumbai	8	8	-
Manila	9	9	-
Jakarta	10	10	-
Kuala Lumpur	11	11	-

Source: Julius Baer

MOST EXPENSIVE CITY: SHANGHAI

On a price-weighted basis, Shanghai has overtaken Hong Kong for pole position this year. It is now the most expensive city to buy six of our 22 items (hospital room, watch, handbag, wine, jewellery and skin cream). In addition, it has grown more pricey on a relative basis to buy property (5^{th} to 4^{th} most expensive), legal fees (10^{th} to 2^{nd}), watches (2^{nd} to 1^{st}), handbags (4^{th} to 1^{st}) and to have a fine dining experience (3^{rd} to 2^{nd}).

LEAST EXPENSIVE CITY: KUALA LUMPUR

Kuala Lumpur retains its claim as the least expensive city in Asia in price-weighted terms. It is the most competitive city to buy six of the 22 items in our index (property, hotel suite, wine, jewellery, piano and cigar).

Price deflation of items onshore such as legal fees (down 4 spots) and jewellery (down 3 spots) offset a recovery in the value of the ringgit against the USD.

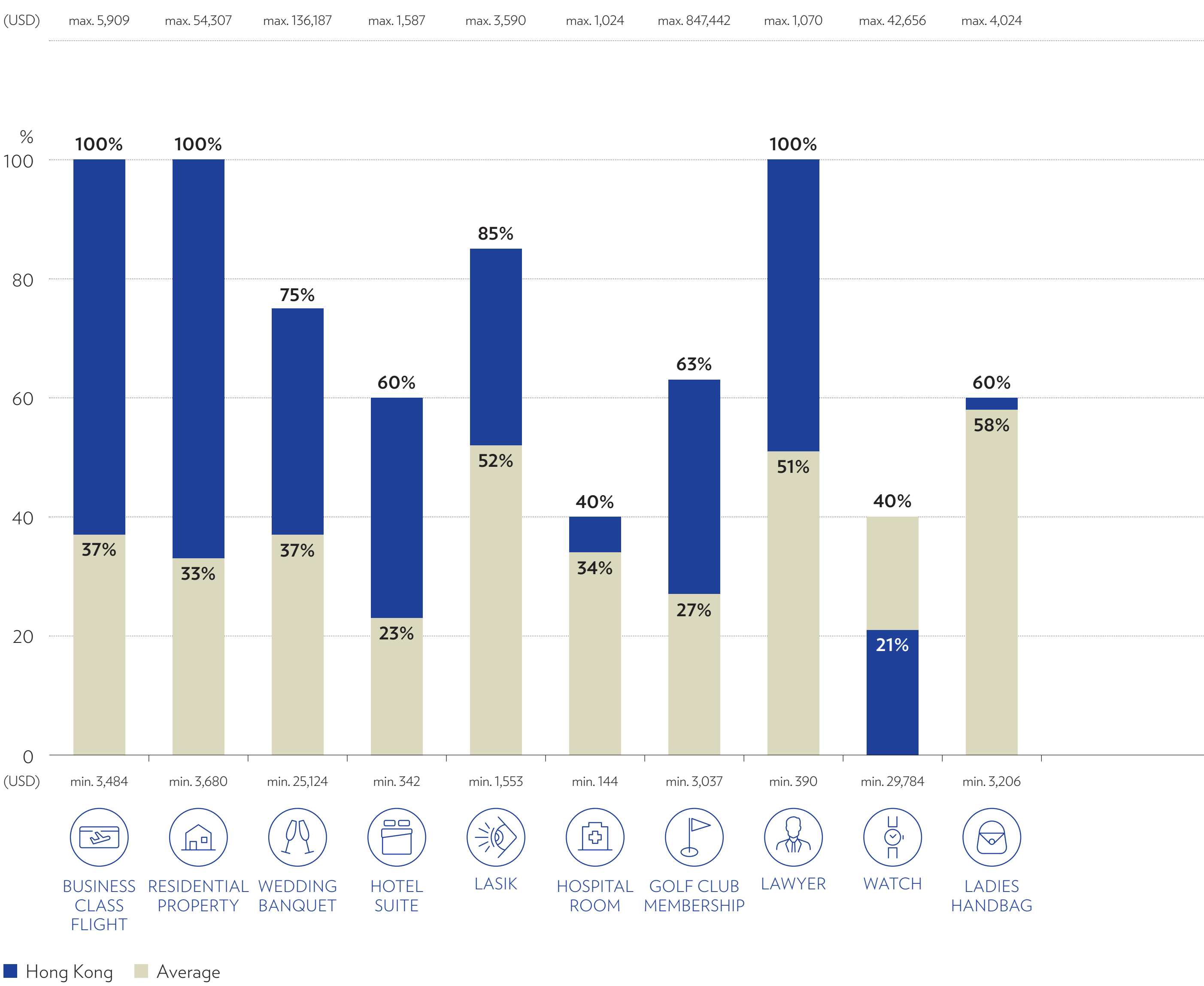
UPGRADES AND DOWNGRADES

Hong Kong, Shanghai and Singapore continue to jockey for top three positions in Asia.

Singapore rises from 3^{rd} to 2^{nd} position helped both by a stronger Singapore dollar, and across the board improvement in item price rankings.

Elsewhere city rankings were largely unchanged apart from Tokyo (+1 to 4^{th}) and Taipei (-1 to 5^{th}) also affected by currency movements.

CHART 26: JULIUS BAER LIFESTYLE INDEX - HONG KONG



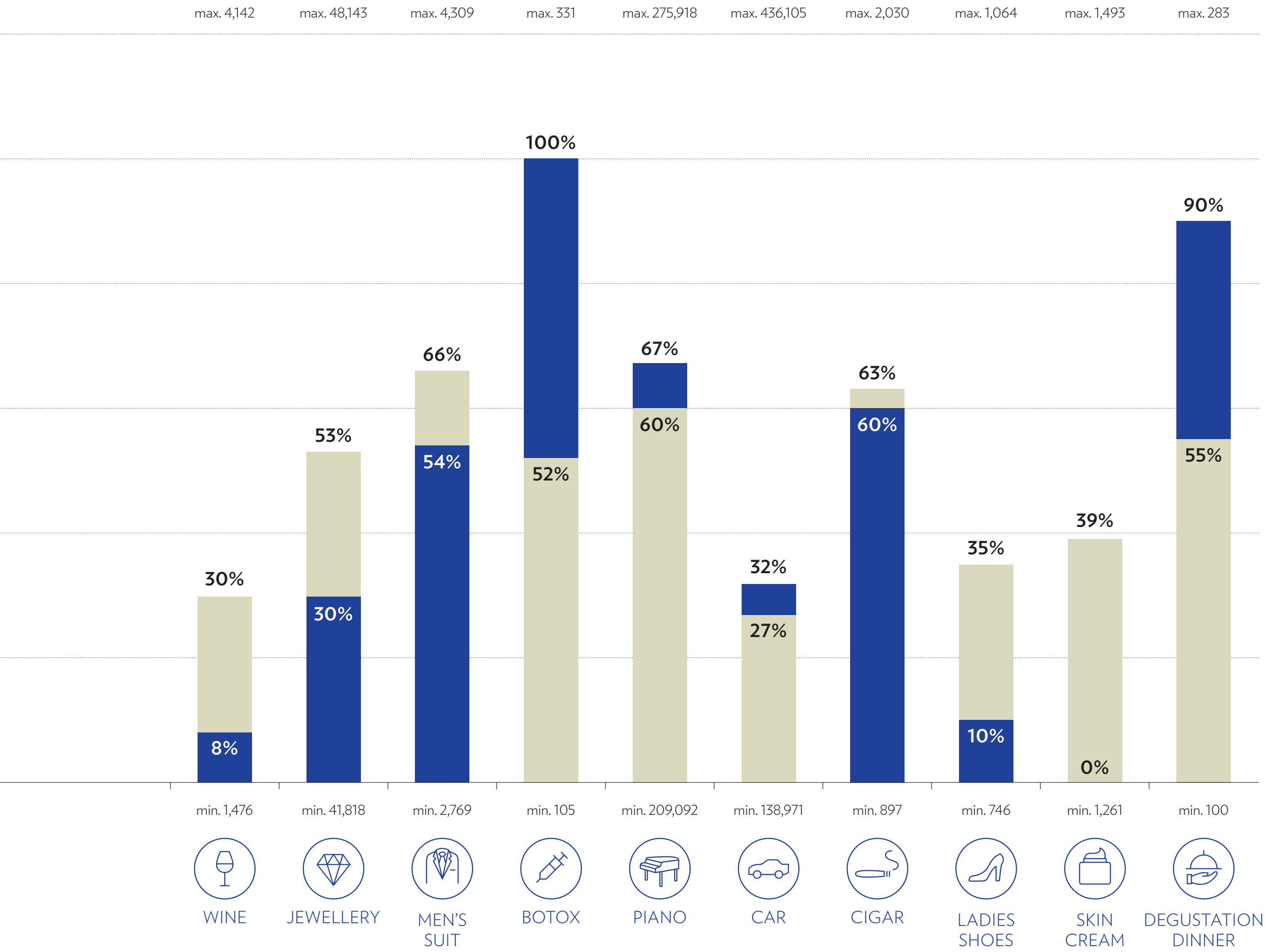
Source: Julius Baer

CITY COMPARISONS - HONG KONG

Our basket of goods and services rose by 2.2% in Hong Kong, with prices for most items stable year-on-year (y/y). Hotel suites (+10.6%), jewellery (+9.5%), and ladies handbags (+6.6%) were exceptions, experiencing strong inflation. This was slightly lower than the average price gain of +2.9% across the cities.

As expected, Hong Kong remains the most expensive city to purchase a residential property and to take a business class flight. Despite its reputation as one of the most expensive cities in Asia, items such as skin cream (11th), jewellery (10th), wine (10th), ladies shoes (8th), watch (8th) and men's suits (8th) are relatively inexpensive.

In a bid to address skyrocketing housing prices, Hong Kong looks set to introduce a 5% tax on properties left vacant for more than six months after the occupancy permit grant. However, its



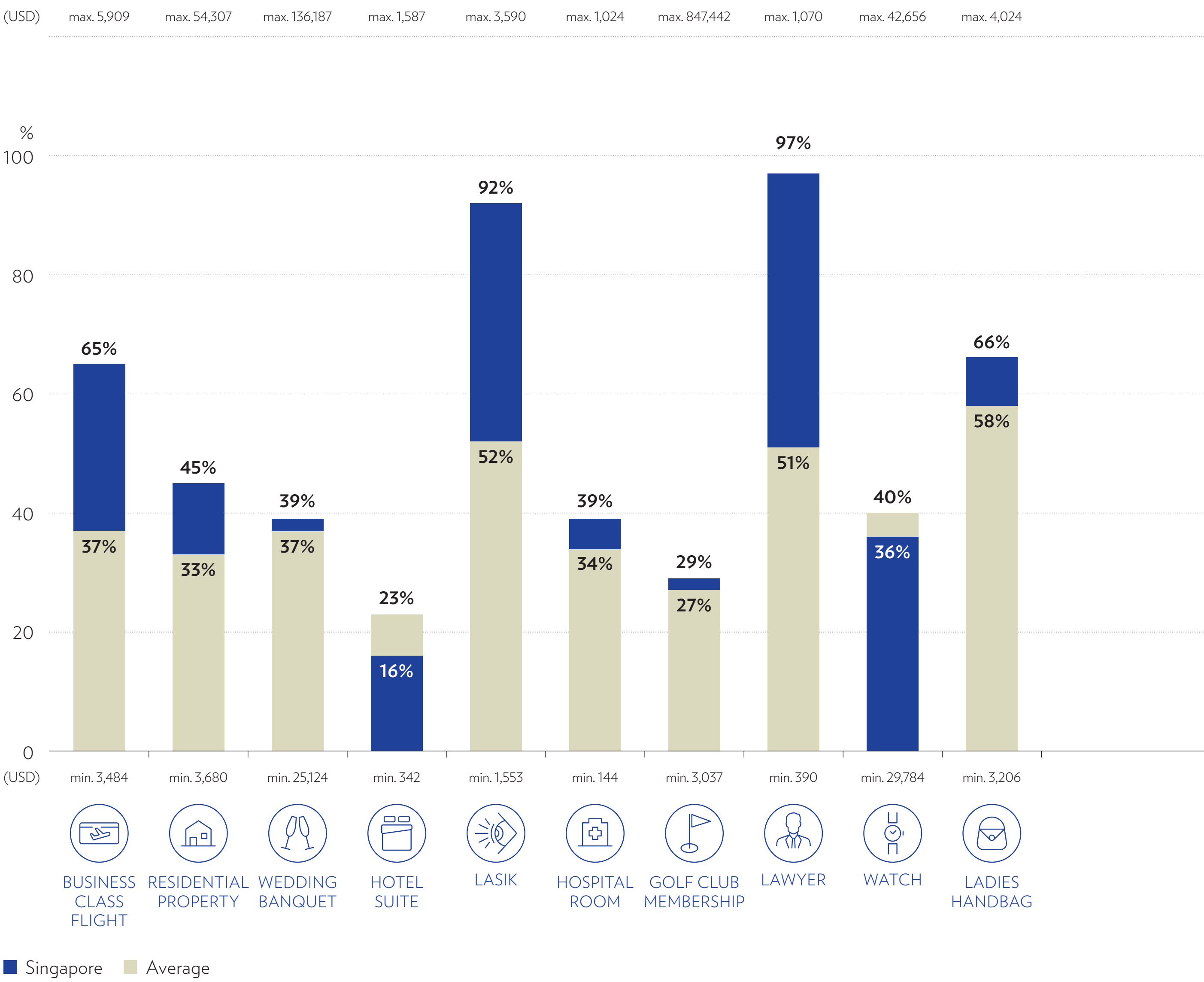
effectiveness remains to be seen and the tax is not expected to affect Hong Kong's property prices significantly. The recent HIBOR hike could also affect property market sentiment negatively.

On the economic front, we expect continued strong growth in 2018, estimated at 3.5%. This is expected to taper to 2.5% in 2019. Export growth is projected to continue its strong growth despite headwinds from the US-China trade dispute.

Consumer prices in Hong Kong are expected to increase by 2.5% in 2018, falling to 2.0% in 2019. The impact of rising global energy costs is dampened by the appreciation of the HKD against the CNY, which results in lower cost of imports from the mainland.

We are neutral on the HKD (which is pegged to the USD) in both the short and long term. The US Federal Reserve is likely to raise rates to 2.5% in 2018, and to 3.5% by the end of 2019. This is positive for the HKD. However, we believe the USD remains fundamentally overvalued.

CHART 27: JULIUS BAER LIFESTYLE INDEX - SINGAPORE

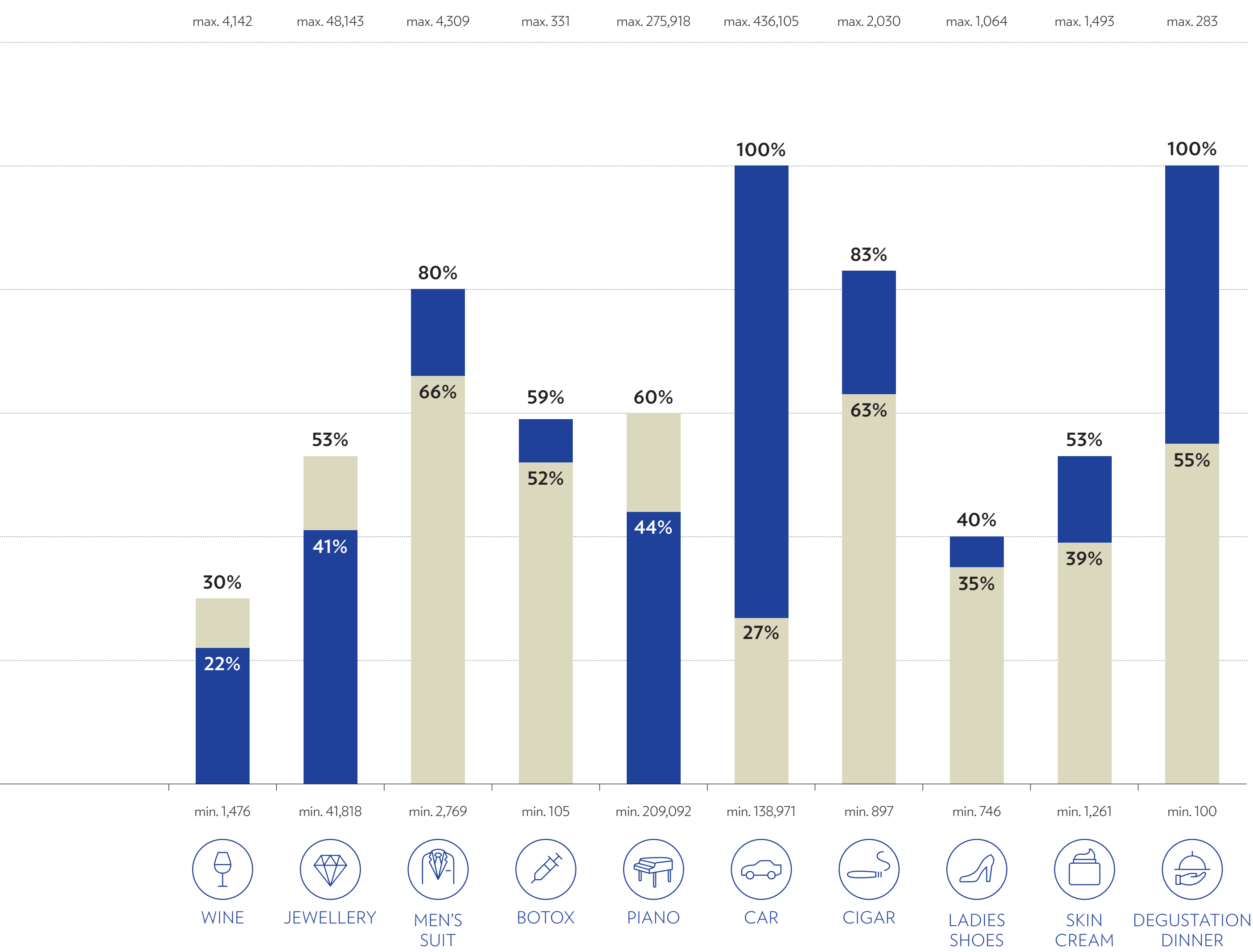


Source: Julius Baer

CITY COMPARISONS - SINGAPORE

Our basket of goods and services in Singapore rose by 5.4% y/y in USD terms, led by strong price increases in golf club membership (+26.1%) and hotel suite (+11.8%). As our country club no longer issues new memberships, prices were driven by the auction market, resulting in its rise. Overall, Singapore's performance was a better result than the index's +2.9%.

On a price-weighted basis, Singapore is now the second most expensive city in Asia. Unsurprisingly, it is the most expensive city to purchase a car, owing to heavy levies and duties on automobile purchases. It is also the third most expensive city to secure a luxury property. Individuals looking to enjoy an evening out at a two Michelin-starred restaurant would also be forking out the highest prices in the region. One would be hard-pressed to find a bargain

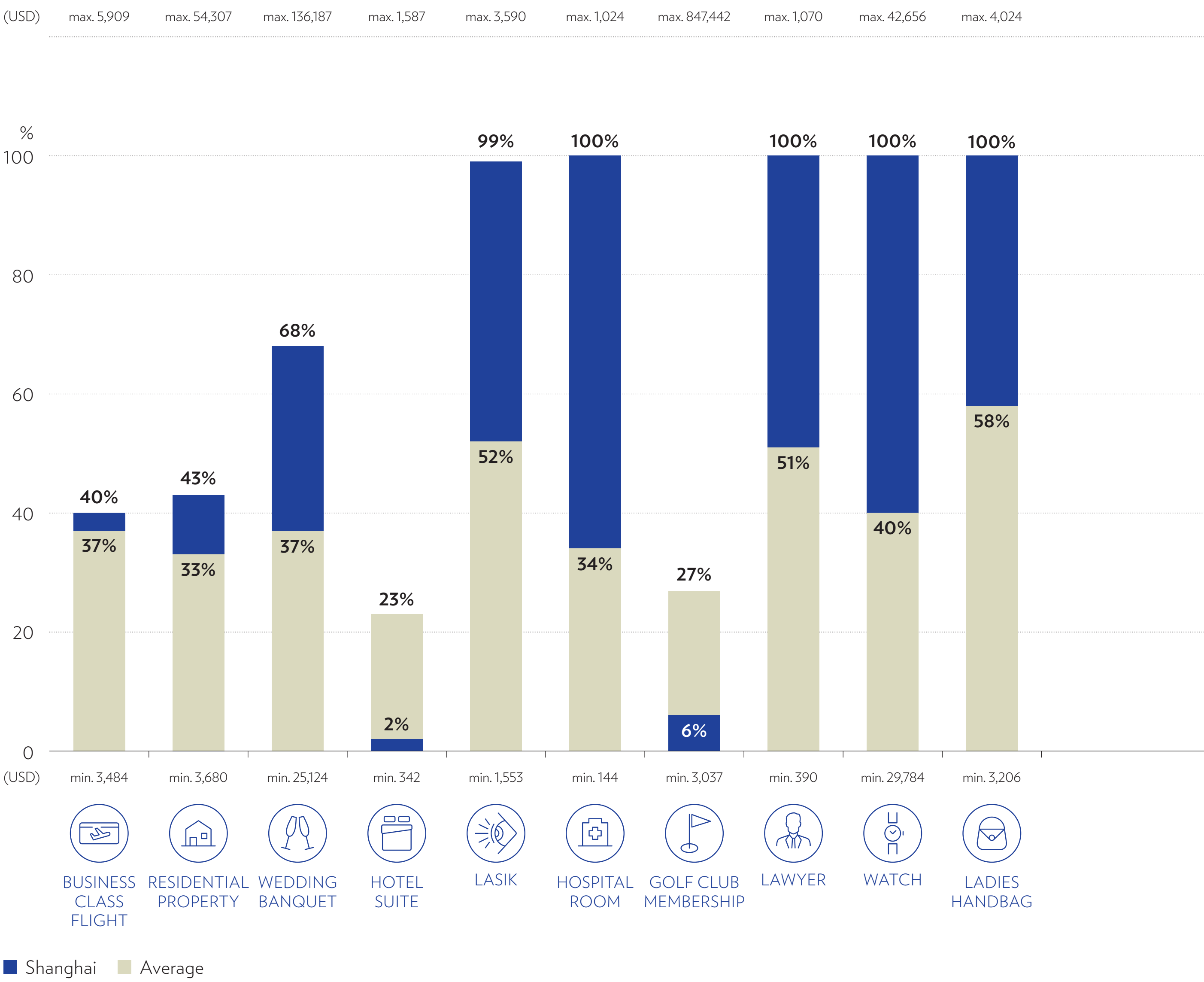


in Singapore, albeit pianos (4th cheapest regionally) and jewellery (5th cheapest regionally) are relatively price competitive compared to the rest of the region.

Named the most liveable city in Asia and ranked second pertaining to ease of doing business, Singapore remains an appealing choice for both talents and investments. Yet, as an open economy, mounting pressure from the trade dispute between two of Singapore's most important trading partners China and the US could affect Singapore's exports. Singapore's economy is projected to grow at a pace of 3.0% in 2018 and slow to 2.5% in 2019. Consumer prices will be boosted by increasing energy prices, from a projected 1.0% in 2018 to 1.5% in 2019.

We have a neutral view on the Singapore dollar shorter term but are bullish longer term. In the short run, a strengthening USD, worsening trade spat and China's economic slowdown will be a drag on the SGD. However, in the longer term, we believe strong fundamentals and greater economic productivity will support the SGD.

CHART 28: JULIUS BAER LIFESTYLE INDEX - SHANGHAI



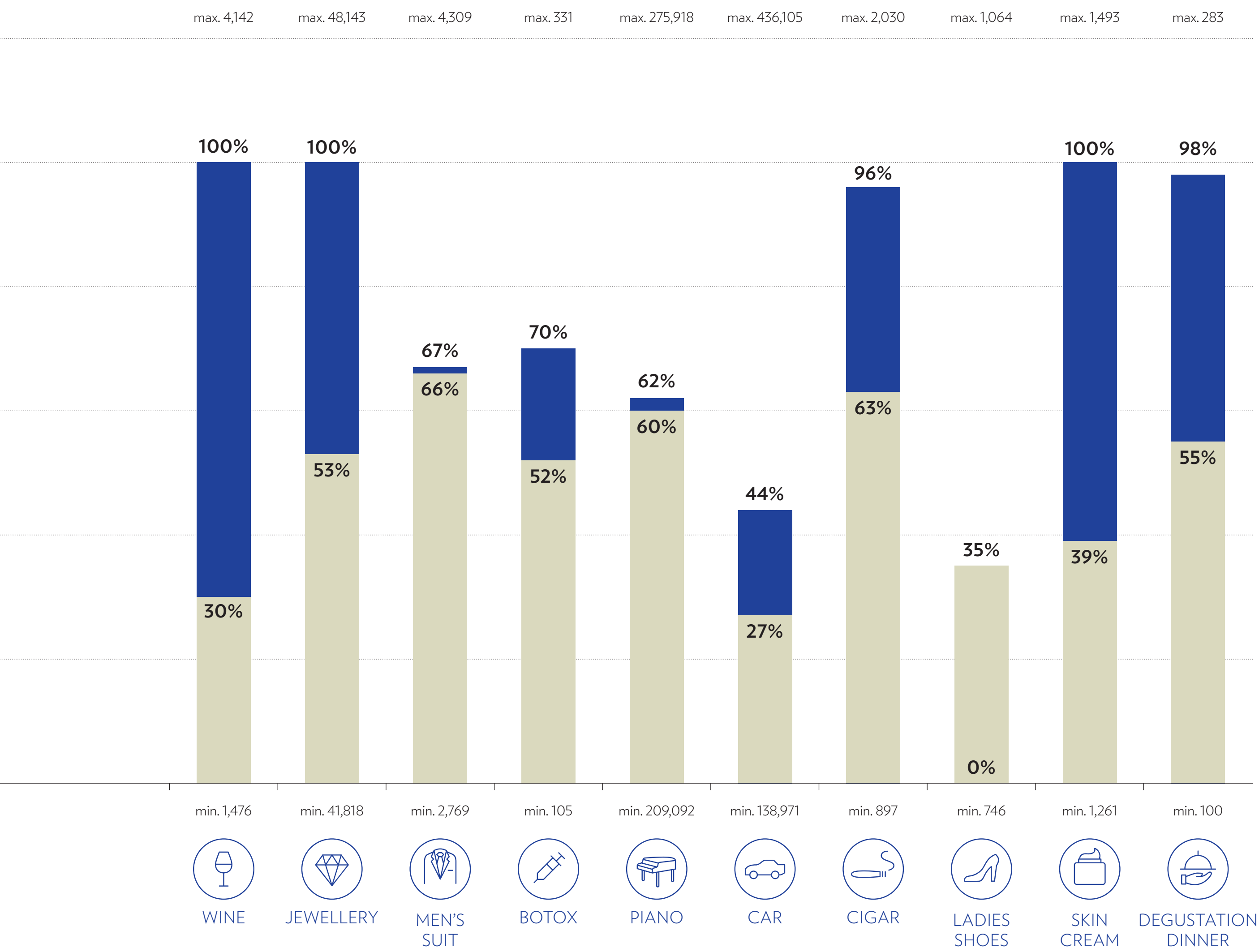
Source: Julius Baer

CITY COMPARISONS - SHANGHAI

Our basket of goods and services in Shanghai rose by 4.8% in USD terms (+4.1% in local currency terms), led by strong growth in residential property (+19.0% in USD terms), wine (+23.3%), and luxury watch prices (+13.2%). This exceeds the 2.9% gain in the overall index. On the flipside, prices of business class flights and botox experienced steep declines brought about by heightened competition, falling by 20.2% and 21.6% respectively in USD terms.

Second only to Beijing in GDP per capita in China, Shanghai moved up a notch to overtake Hong Kong as the most expensive Asian city.

It is the most expensive city for six of our index items - hospital accommodation, watches, ladies handbag, wine, jewellery and skin cream. Tariff cuts on imported goods in July did not translate into lower prices for our index items.



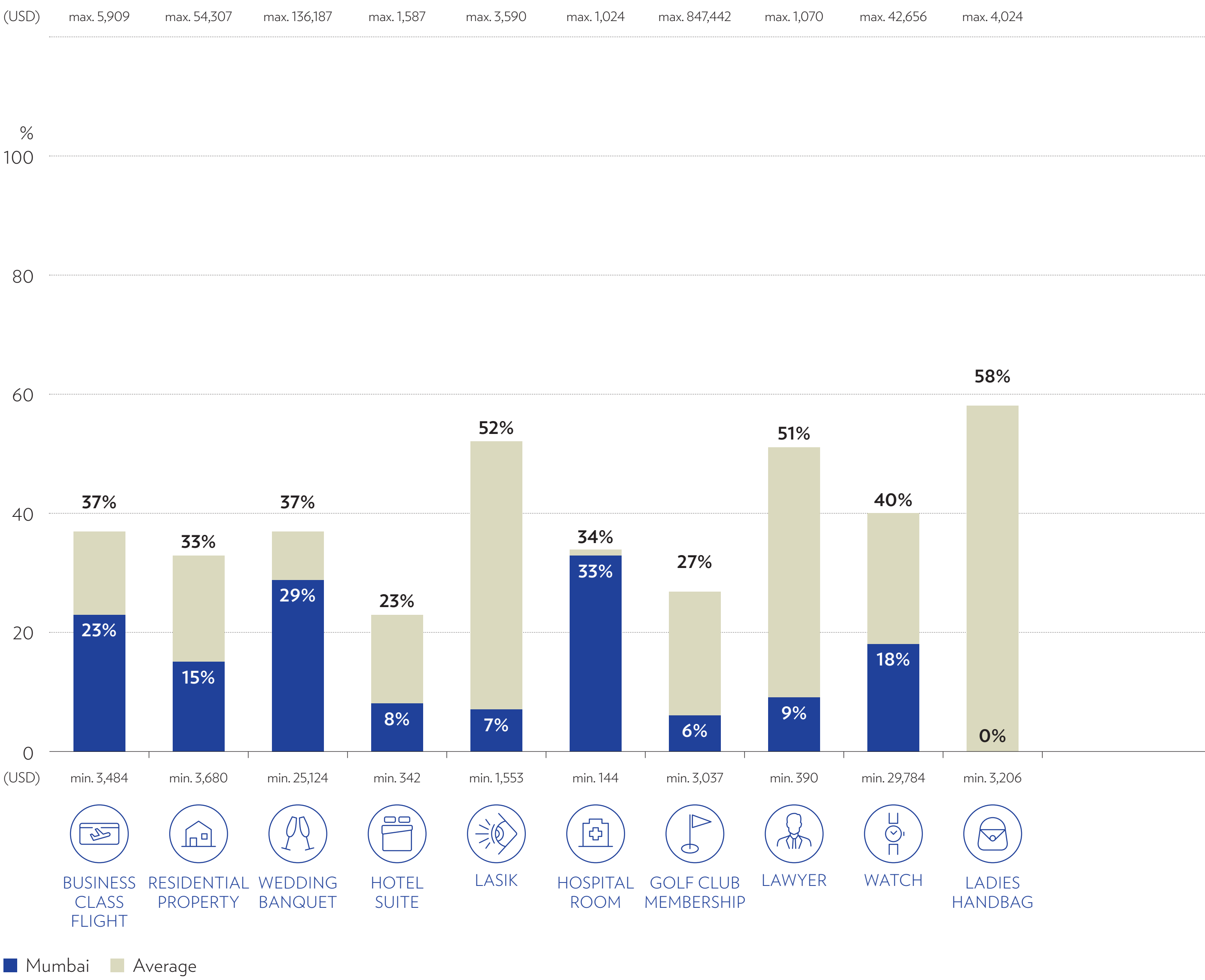
Ladies shoes and hotel suites are some of the cheapest in the region, ranked 11th and 9th respectively.

Tightening measures in 2016 have caused a slowdown in China's economic engine. Despite monetary and fiscal easing measures, trade tensions continue to weigh on consumer and investor sentiment. With China's largest trading partner – the US - looking to impose ever more onerous tariffs on Chinese imports, China's manufacturing growth is likely to slow. We forecast that growth will slow to 6.6% in 2018, and further decline to 6.2% in 2019.

Higher energy costs will lift transport prices, while Chinese tariffs on US agricultural imports will push up food prices. As growth softens, we expect moderate inflation at an average of 2.0% for 2018, which will creep up to 2.6% in 2019.

Over a three-month and 12-month horizon, we are bearish on the CNY as the economy slows, US trade tensions remain and the authorities engineer a gradual depreciation to protect foreign currency reserves.

CHART 29: JULIUS BAER LIFESTYLE INDEX - MUMBAI

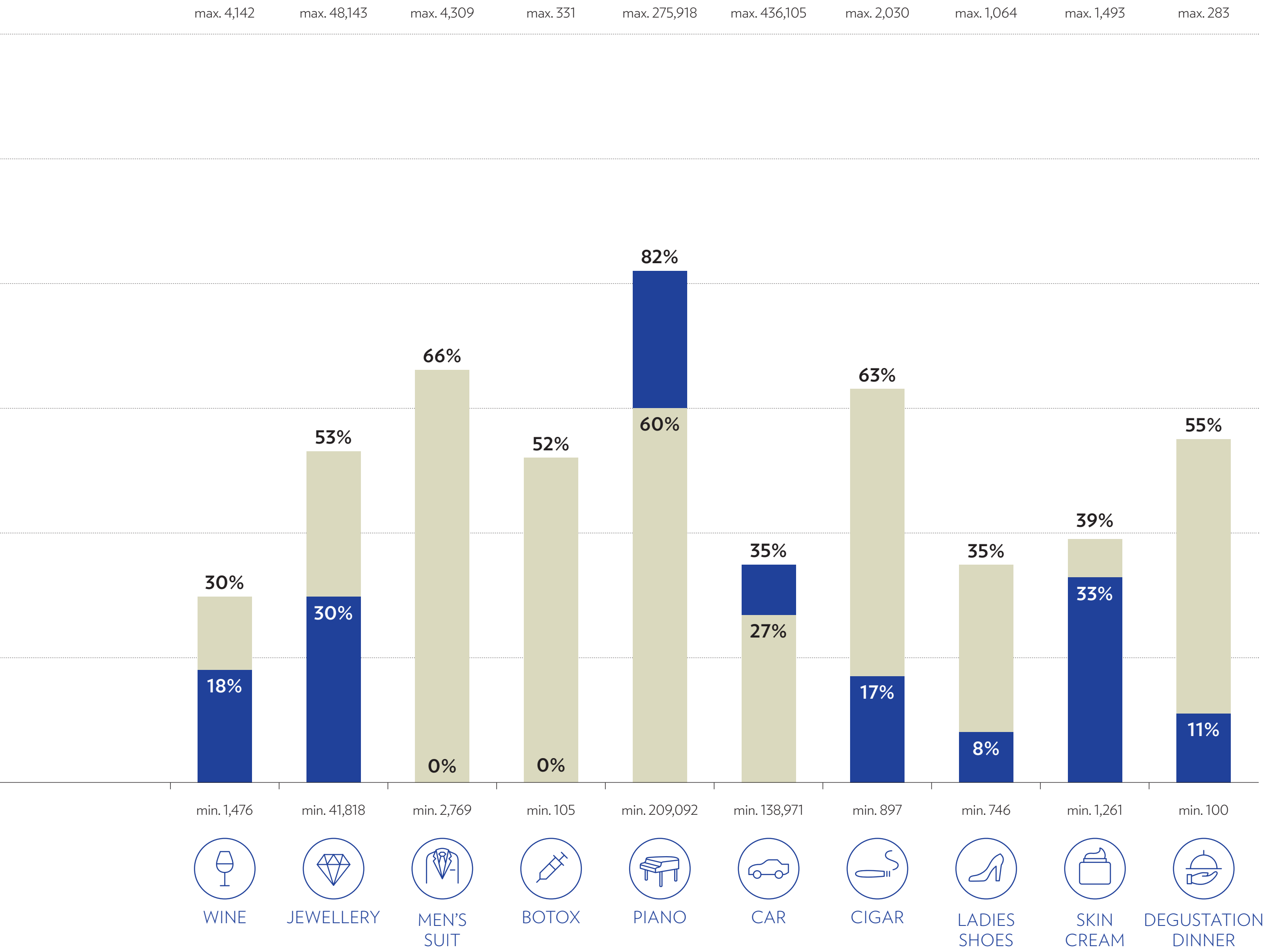


Source: Julius Baer

CITY COMPARISONS - MUMBAI

Prices in Mumbai generally remained flat during the year in USD terms as a result of the rupee's weakness during the period, which declined by 6%. This is in contrast to a gain of 5.1% in local currency terms for the Mumbai lifestyle index. In USD terms, we saw significant price gains for hospital rooms (12.7%) and cigars (12.7%). On the flipside, the price of lasik saw the greatest decline of 11.8%.

On a price-weighted basis, Mumbai remains one of the most competitive cities in the region (8th). Shoppers looking to spruce up their wardrobe can find some of the cheapest men's suits (11th), ladies handbags (11th), ladies shoes (10th), watches (9th) and jewellery (9th). To complete their look, shoppers may also undergo botox (11th) and lasik (10th) procedures for a relative bargain. Engaging a

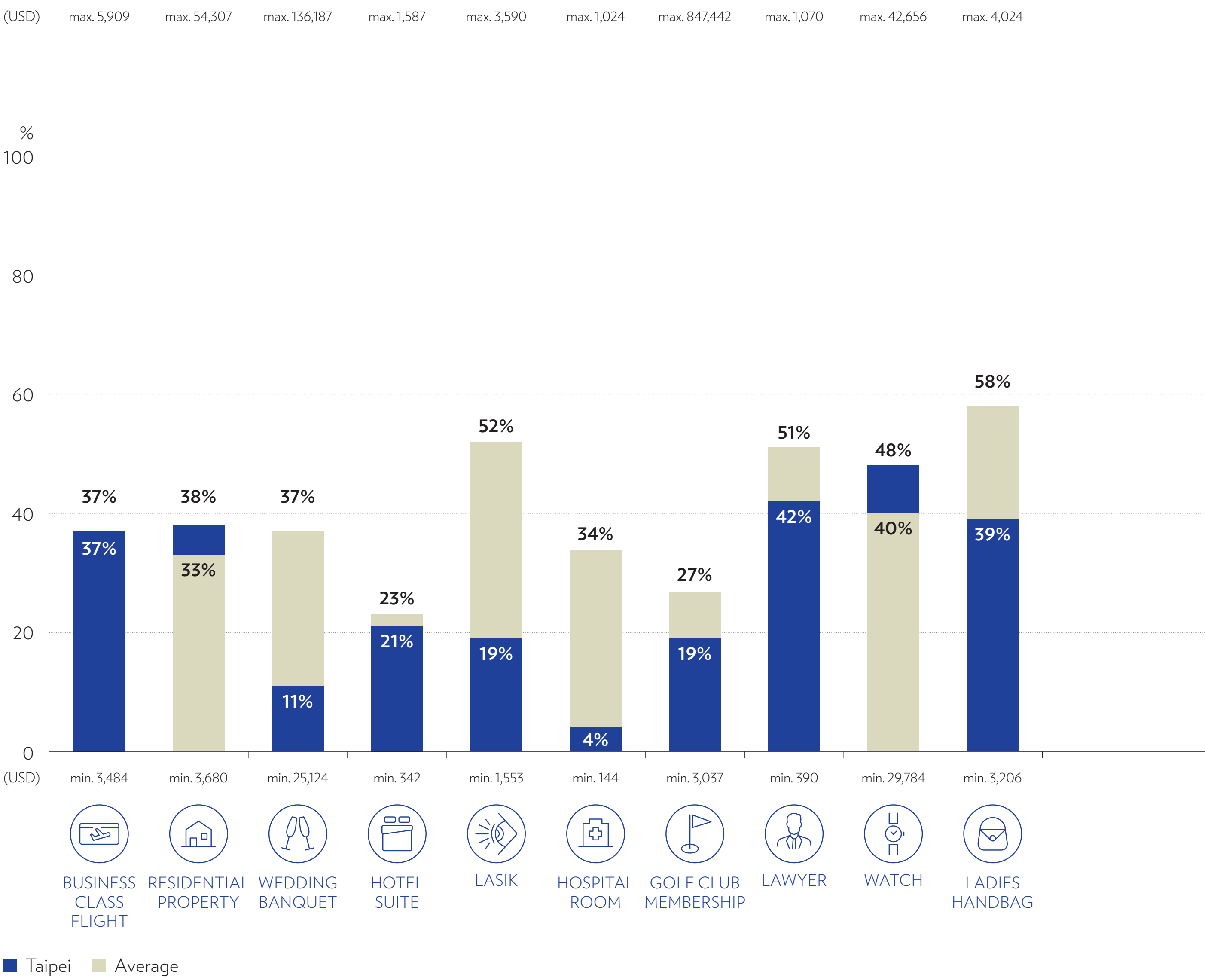


lawyer and smoking a cigar are also relatively price competitive in the city, with both coming in at 10th place.

India is one of the fastest growing economies in the region. Though the National Democratic Alliance (NDA) is shifting its attention away from business-friendly policies towards populist ones, the government will continue to invest in infrastructure development. We forecast that India's economy will grow by 7.5% in 2018 and by 7.0% in 2019 on the back of strong consumption and fixed investment growth. We forecast inflation to grow at 4.5% in 2018 and 5.0% in 2019.

We remain bullish on the Indian rupee over the long term due to ongoing reforms by Modi's government to enhance productivity and supply banking recapitalisation. Inflation and the rupee's volatility are expected to be kept in check by a credible monetary policy.

CHART 30: JULIUS BAER LIFESTYLE INDEX - TAIPEI

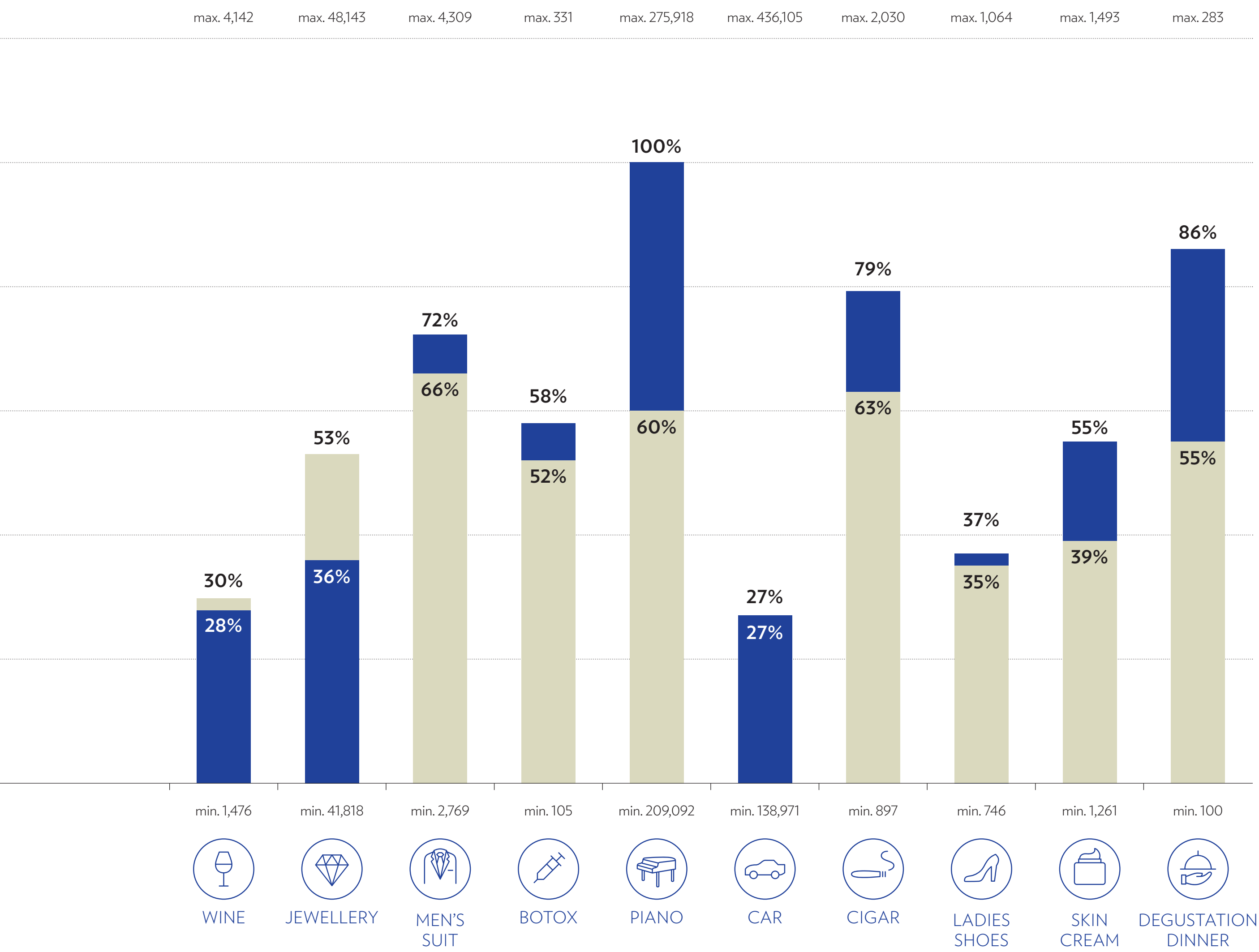


Source: Julius Baer

CITY COMPARISONS - TAIPEI

Our basket of goods and services rose by 2.4% y/y in Taipei in USD terms (2.8% in local currency terms), with large gains seen in cigar (+20.6%). This outweighed the declines in hospital rooms (-18.2%) and business class flights (-13.8%). Overall, the price changes in Taipei were largely in line with our overall index, which saw gains of 2.9%.

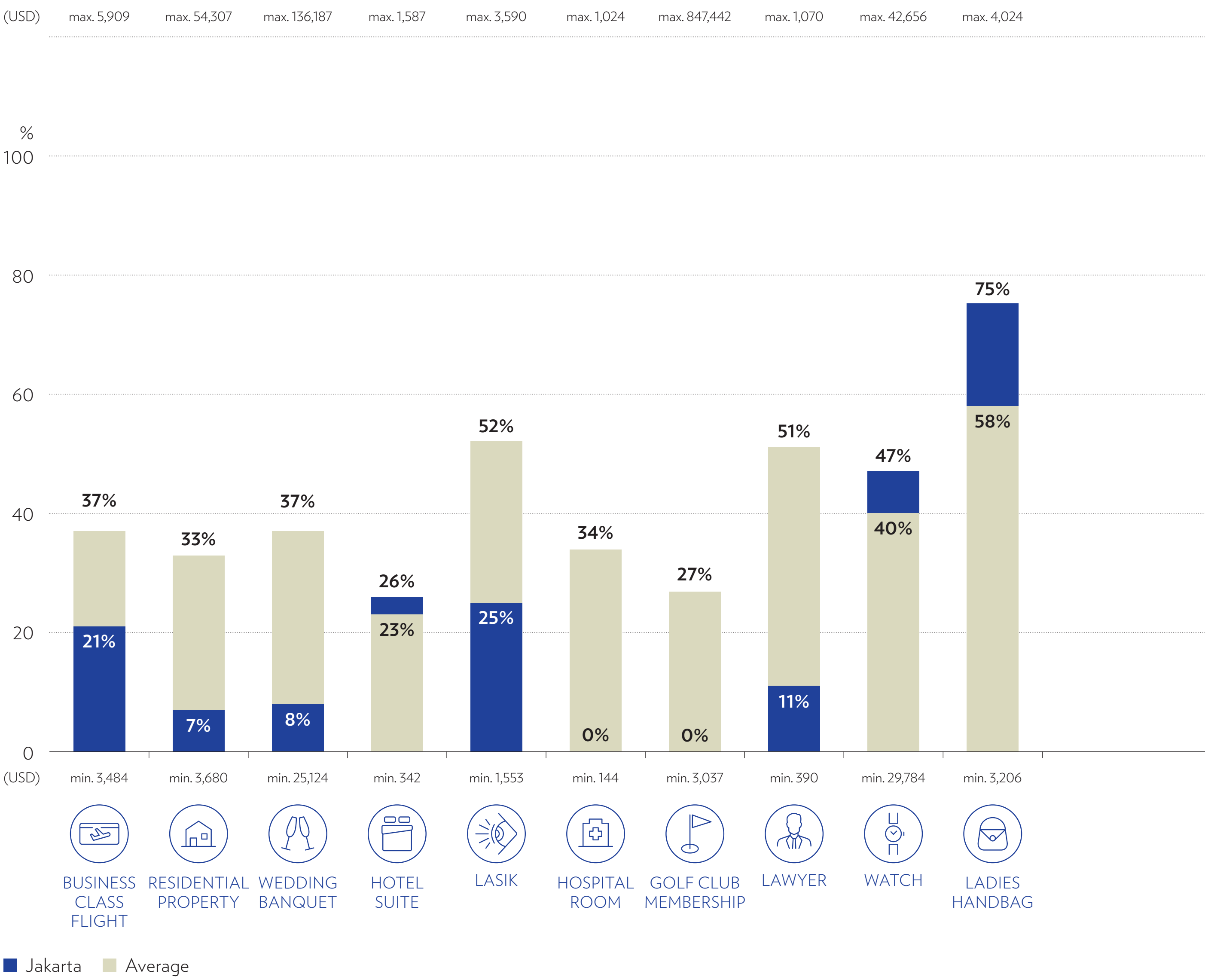
Taipei's ranking in our index remains stable, falling only one spot to be the 5th most expensive city this year. Savvy shoppers may purchase ladies handbags (2nd cheapest) in the region, and patients may undergo competitively priced lasik (3rd cheapest) and recuperate in a hospital suite (2nd cheapest).



Taiwan's position as a manufacturer of crucial technological components within the global consumer-electronics cycle should cushion it during less certain economic conditions. Increase in global demand for consumer-electronics and robust consumption demand within Taiwan, amongst others, will sustain Taiwan's GDP growth in the near future. We maintain a positive outlook on the island and project average GDP growth of 2.5% in 2018 and 2.0% in 2019.

Inflation is expected to come in at 1.5% in both 2018 and 2019, picking up from 0.6% in 2017. This is largely due to the rise in global oil prices. However, government housing initiatives and lower import costs will keep overall inflation in check.

CHART 31: JULIUS BAER LIFESTYLE INDEX - JAKARTA

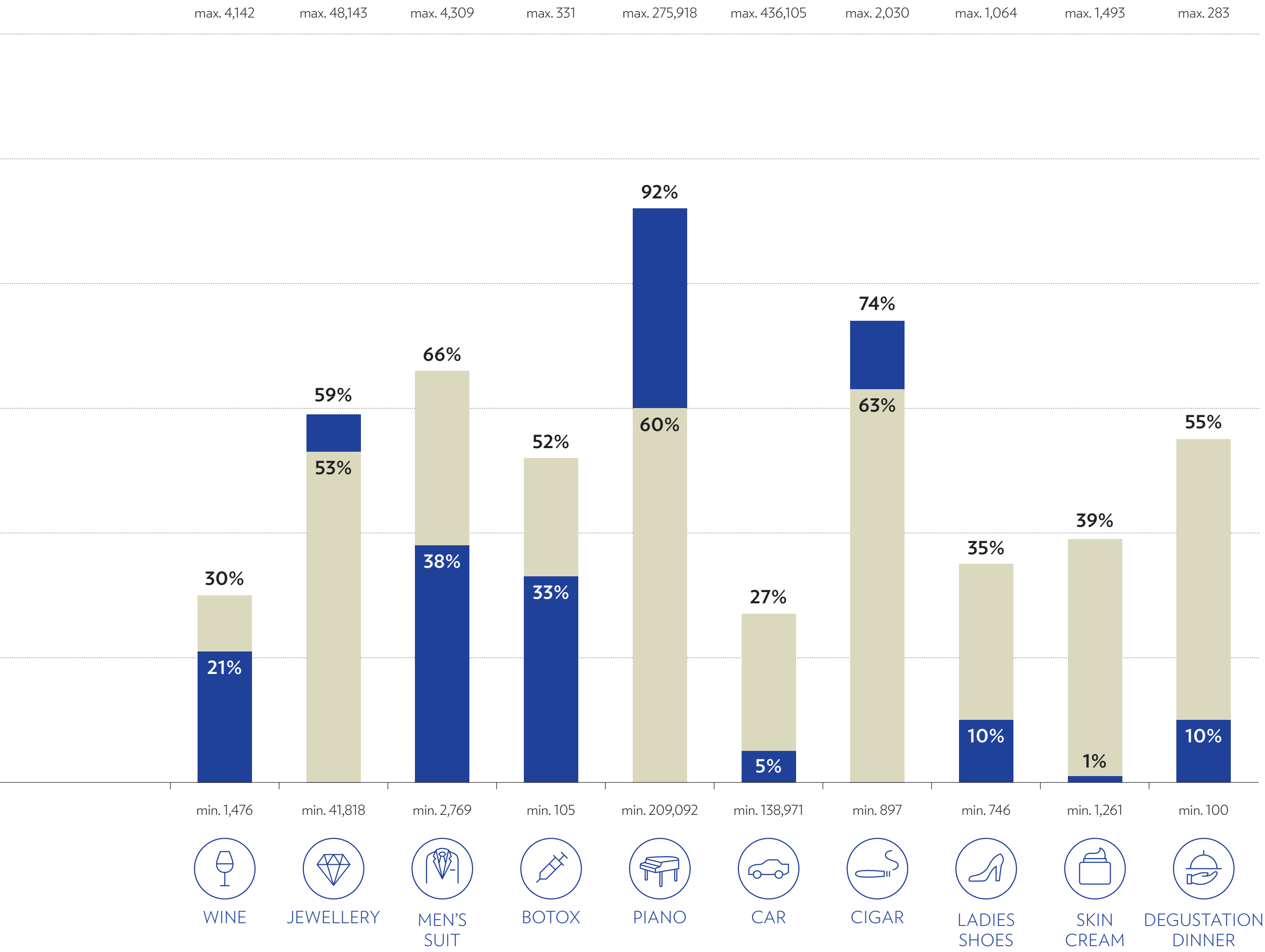


Source: Julius Baer

CITY COMPARISONS - JAKARTA

Our Jakarta lifestyle index declined by 1.6% in USD terms reflecting the declines in prices of 11 out of 22 index items. Even as the index rose 6.4% in local currency terms, the rupiah's substantial depreciation (8%) during the period wiped out local currency price gains. Still at the individual item level, large gains were seen in the prices of cigars (+41.9%), men's suits (+17.6%), and pianos (+15.3%).

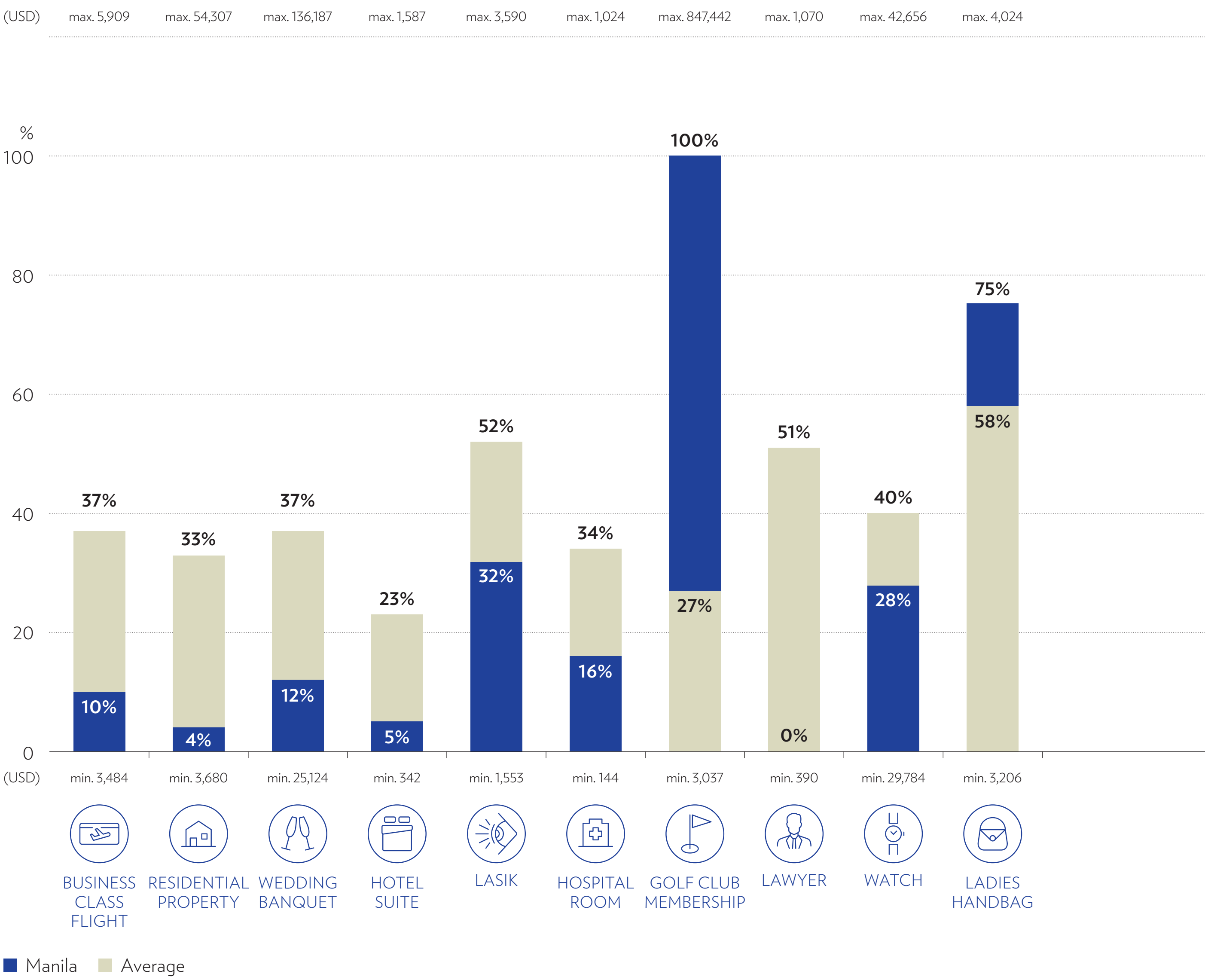
On a weighted-average basis, Jakarta remains the second-cheapest city in the region. It is the city where one can find the cheapest hospital suite and golf club memberships. Hosting a wedding banquet, purchasing a men's suit, buying skin cream, and enjoying a degustation dinner are also the second most price competitive in the region.



The fourth most populous country in the world, Indonesia's economic activity is driven by strong domestic demand, with household consumption contributing the lion's share of GDP. Private investment also contributes to a third of Indonesia's GDP. We expect a continuation of Indonesia's business-friendly and populist policies, which should support consumer and investment spending. Overall, we expect GDP to grow by an average of 5% a year in 2018 and 2019. In addition, inflation will quicken from 3.5% in 2018 to 4% in 2019 due to rising oil prices.

We are bearish on the rupiah in the short term and neutral over the long term. Indonesia has strongly defended the IDR, yet we expect the currency to remain under pressure as it will remain exposed to returning emerging market volatility.

CHART 32: JULIUS BAER LIFESTYLE INDEX - MANILA

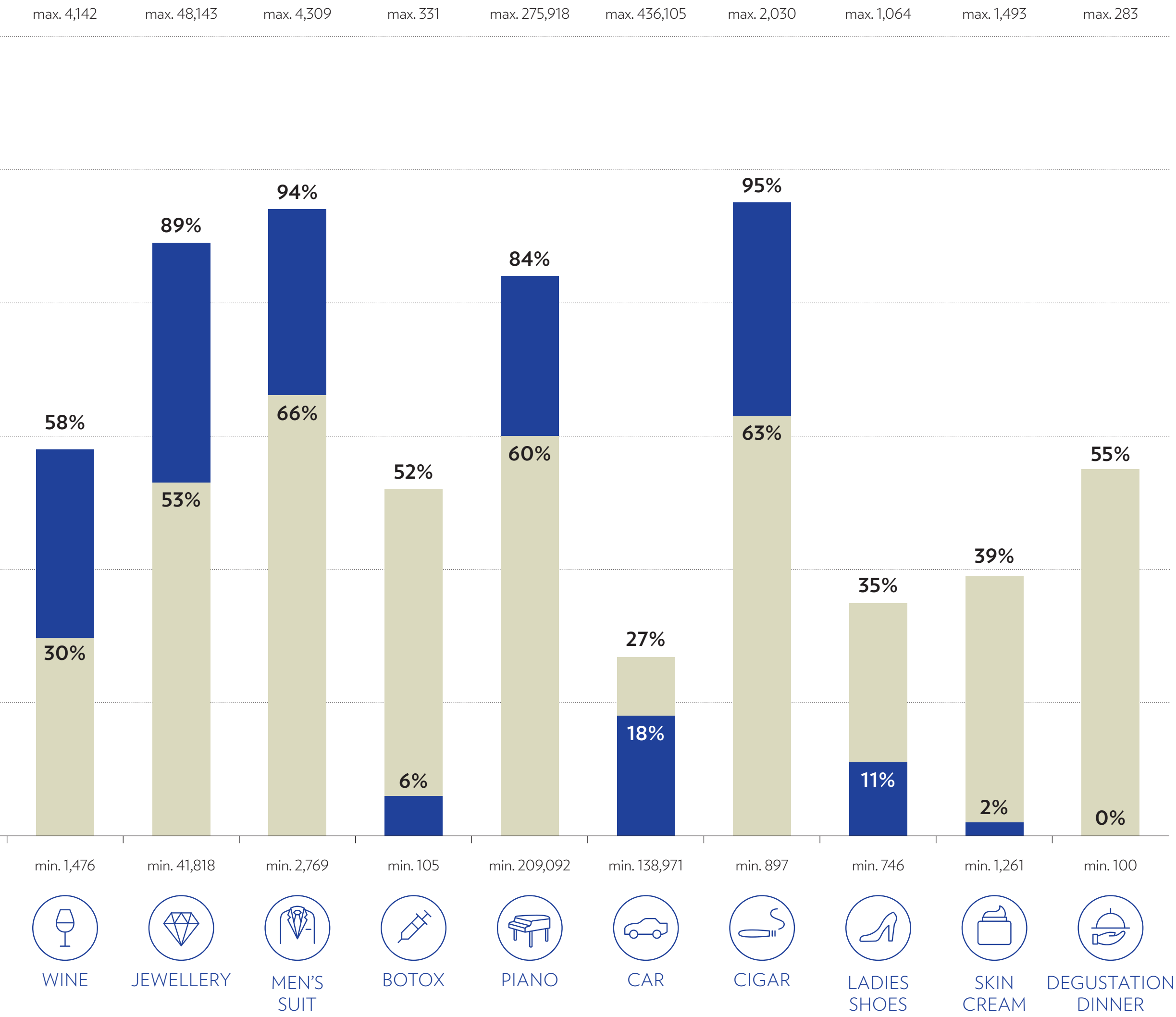


Source: Julius Baer

CITY COMPARISONS - MANILA

In local currency terms, prices of luxury goods and services in Manila rose sharply (+9.5%). However, the weakening of the peso by 6% during the period reduced gains to 2.9% in USD terms. This is in line with the overall index performance of +2.9%. In USD terms, the best performing items this year were men's suits (+31.5%), cigars (+16.0%), ladies shoes (+13.0%), and wedding banquets (+11.9%). Conversely, cars saw the biggest decline (-19.4%), followed by business class flights (-14.4%) and degustation dinners (-12.0%).

Manila remains the third cheapest city in our focus list. Despite significant price appreciation across the board in local currency terms, the continuous devaluation of the peso negated much of this increase. Engaging a lawyer and enjoying a gastronomic degustation dinner are the cheapest in

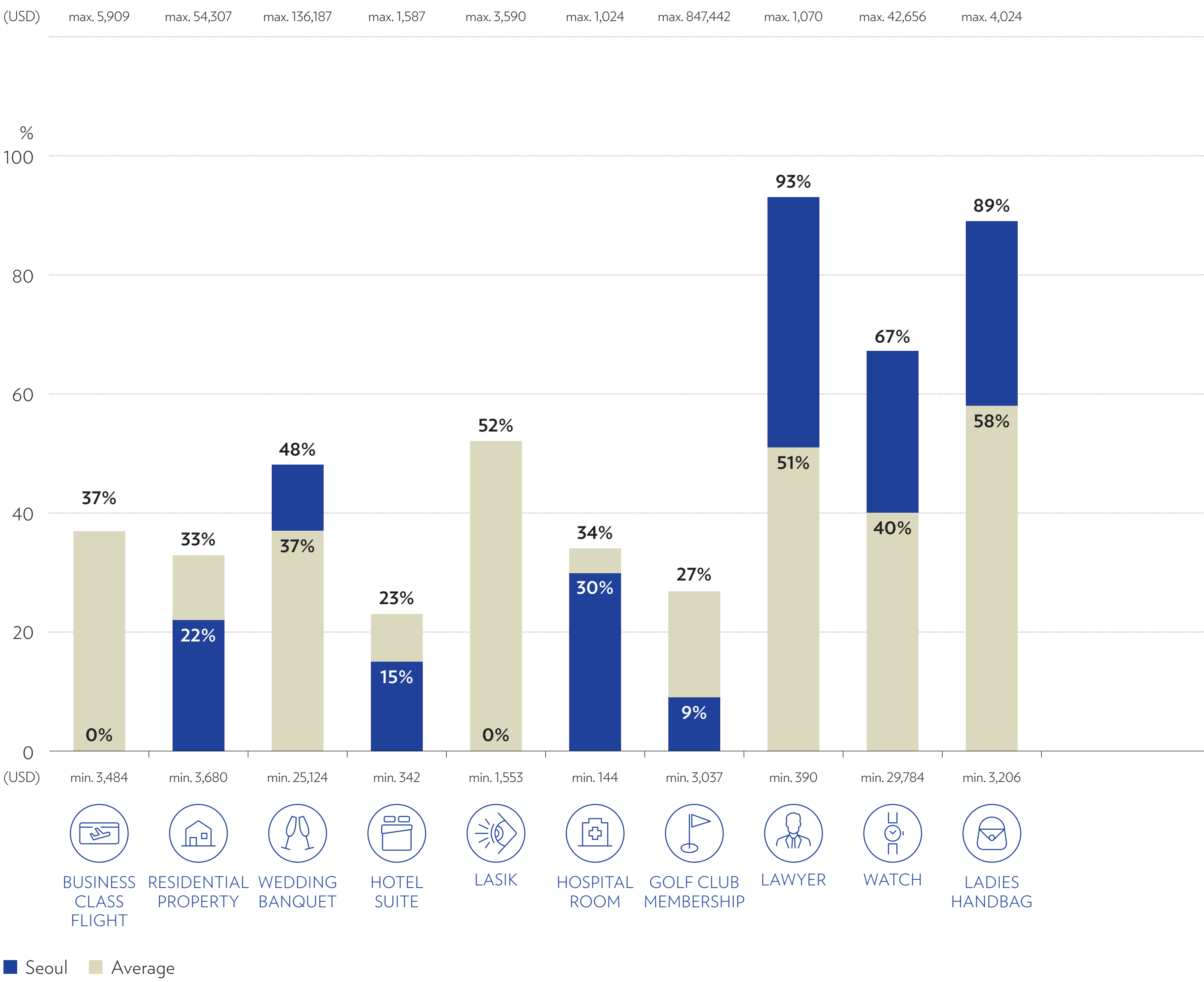


the city. In addition, residential property and botox are the second cheapest in Manila. Though Manila has plenty of bargains, golf club memberships are the most expensive in Asia.

Philippines' economy has demonstrated robust growth (fastest within ASEAN), and the archipelago has largely been spared from US tariffs. The government is increasing spending on infrastructure, and the Philippine economy is buttressed largely by domestic consumption. The economy is largely driven by domestic consumption, which constituted 73.3% of GDP in 2017. We forecast the economy to grow 6.4% this year, and 6.0% next year.

The confluence of freshly imposed indirect taxes, devaluation of the peso, and the sustained rise in global commodity prices resulted in markedly higher inflation in 2018 (5.0%). We expect inflation to taper slightly to 4.3% in 2019.

CHART 33: JULIUS BAER LIFESTYLE INDEX - SEOUL

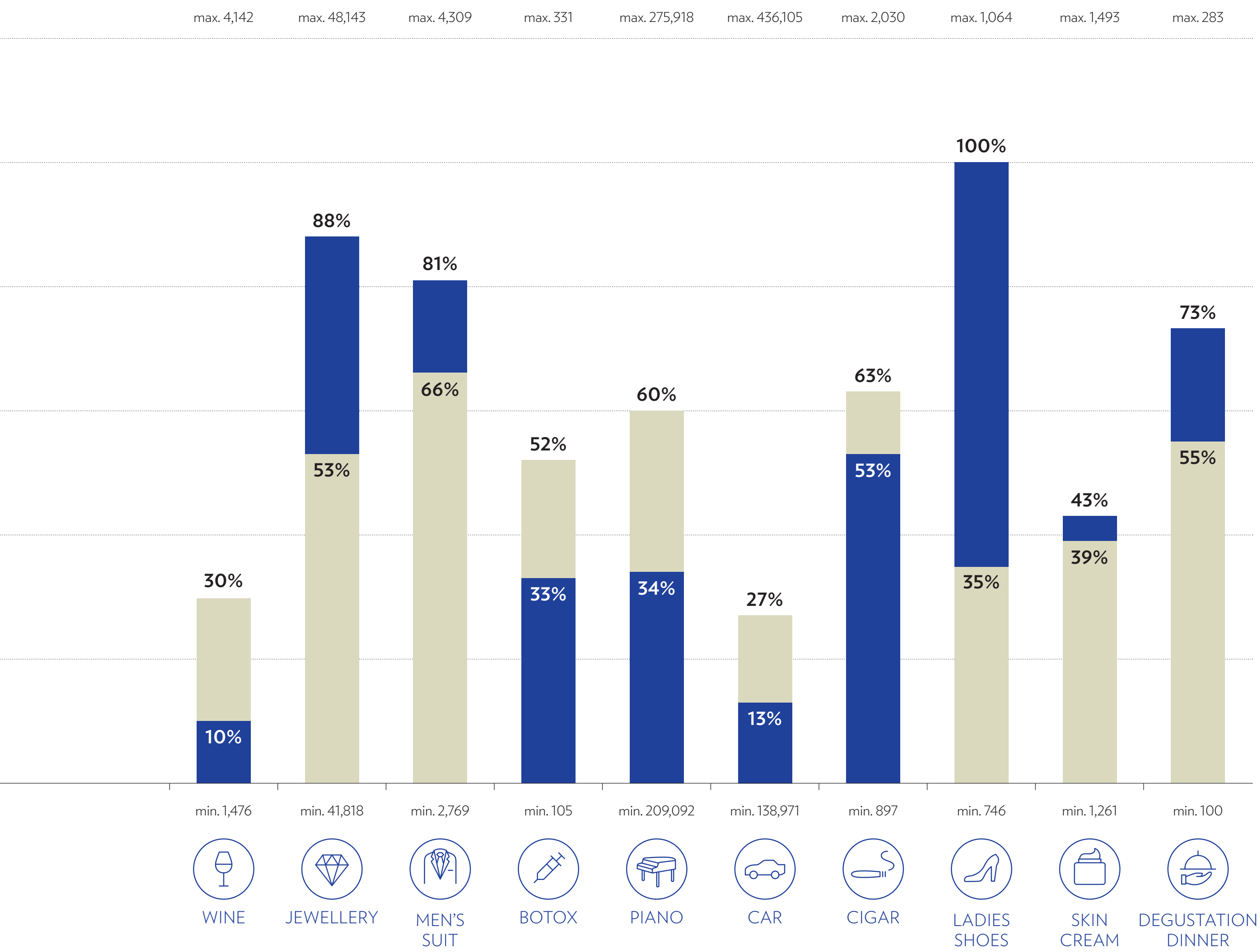


Source: Julius Baer

CITY COMPARISONS - SEOUL

Seoul's basket of goods and services appreciated by 4.0% y/y in Korean won terms, compared to 5.6% in USD terms. This was a better performance than the index (+2.9%). Men's suits (+16.2%), golf club memberships (+16.0%), and residential property (+12.2%) saw the largest gains. On the other hand, botox (-8.3%) and business class flight (-13.2%) were the biggest losers.

Seoul maintains its position as the 6th most expensive city in the region. It remains the most expensive city to purchase ladies shoes, and is the second most expensive for our watches and handbags. However, Seoul has its bargains. Consumers seeking lasik surgery or booking business class flights can enjoy the cheapest prices in the region. Wine and pianos are also the third cheapest amongst the cities.

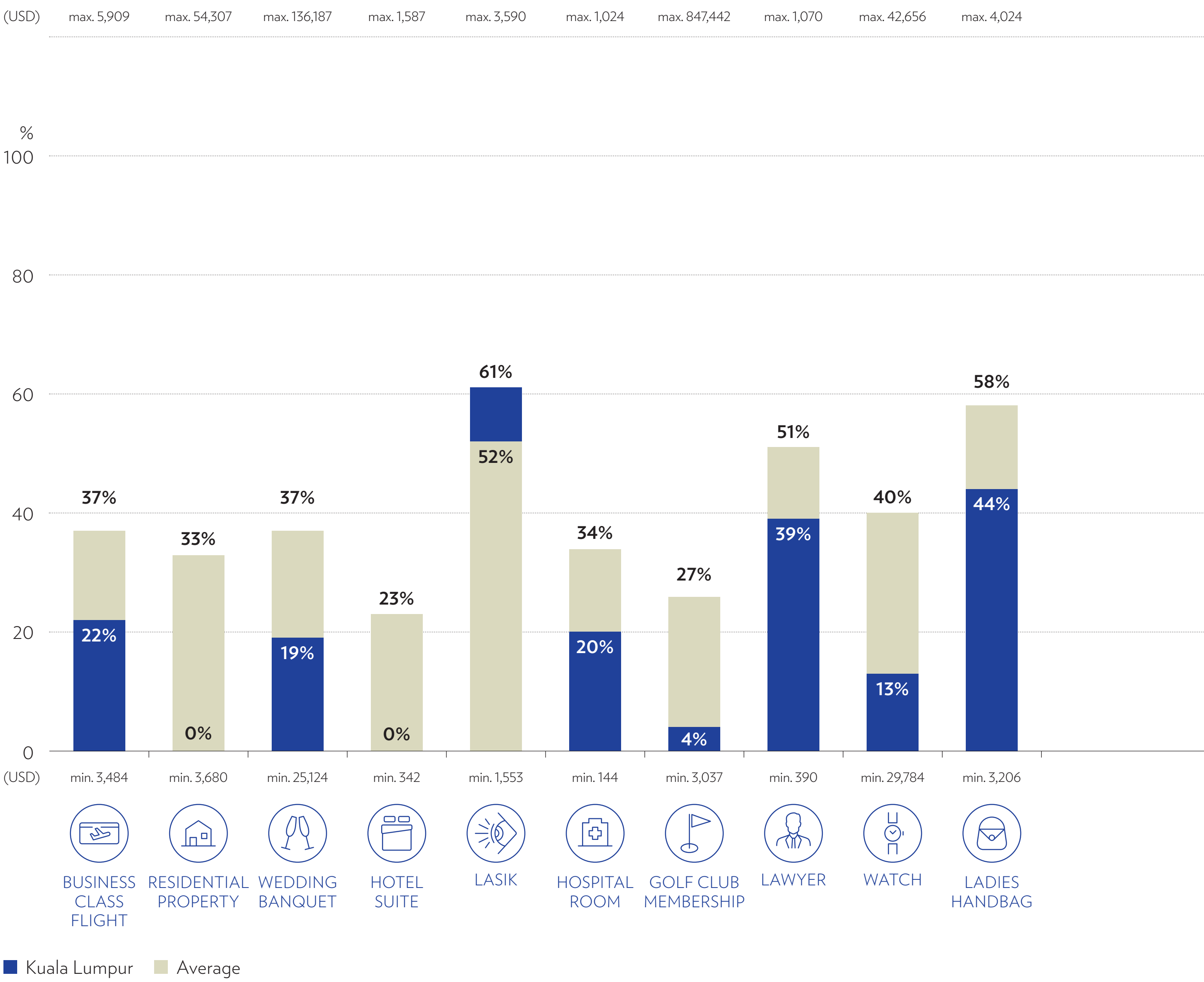


Seoul has increased its engagement with its closest neighbour. The inter-Korea summit held in April and the ensuing Panmunjom declaration, along with the US-North Korea summit, were widely perceived as successes in South Korea. However, geopolitical risks within the peninsula still remain.

We forecast growth in South Korea to be 2.5% in both 2018 and 2019. Growth will continue to be driven by exports in the near future. However, intensifying US-China trade tensions threatens to be a drag on South Korea's economy. As a heavy oil importer, South Korea will bear the brunt of rising oil prices. Thus, we forecast inflation to be 1.5% in 2018, accelerating to 2.0% in 2019.

We are positive on the South Korean won over the near and long term. The KRW has remained relatively resilient as export strength has held up so far. Strong growth may come down in Q4 2018 with softening external demand. However, the economy will remain supported by an expansive fiscal stance and only modest rate normalisation into 2019. In the longer term, the current-account surplus should remain ample, supporting the KRW.

CHART 34: JULIUS BAER LIFESTYLE INDEX - KUALA LUMPUR



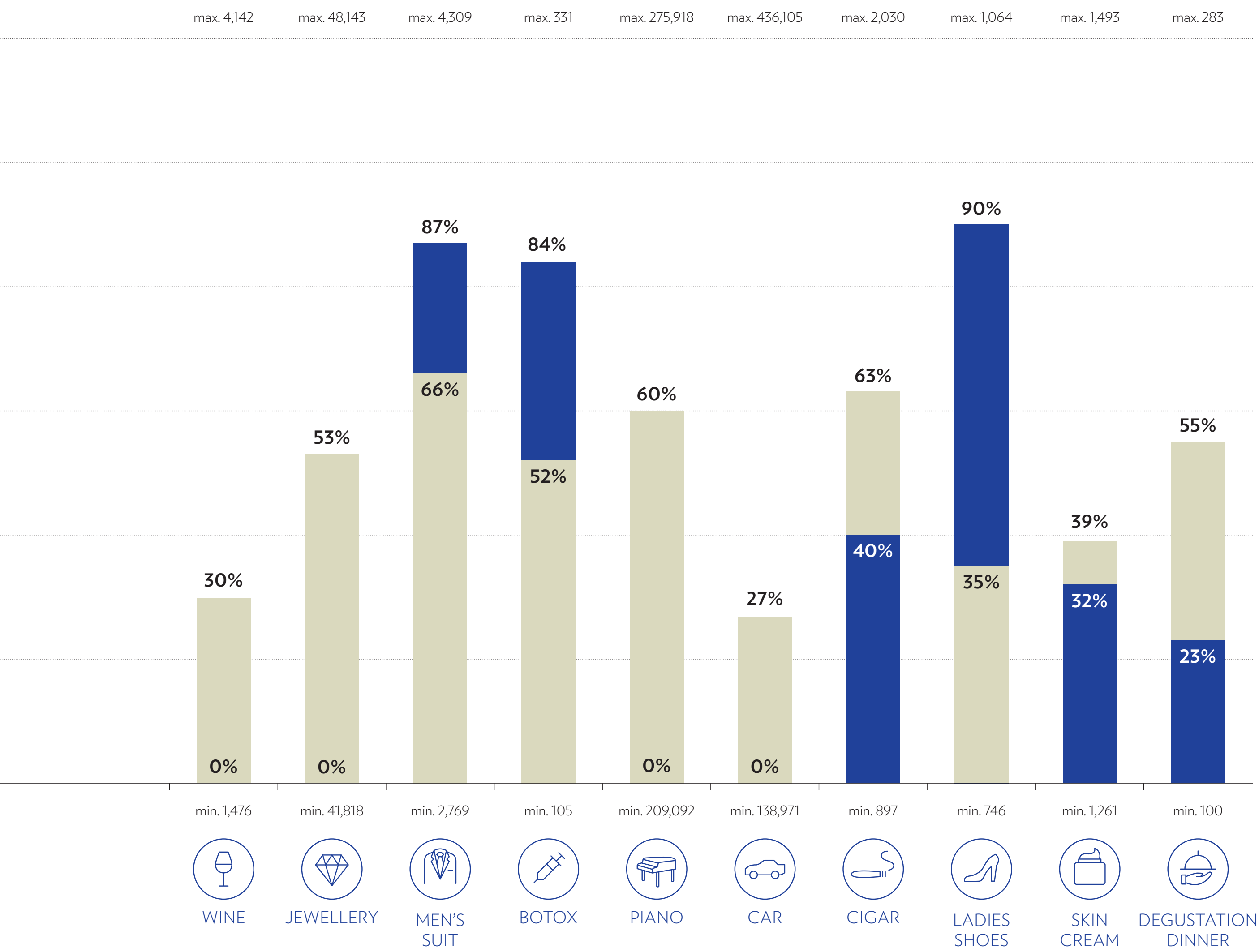
Source: Julius Baer

CITY COMPARISONS - KUALA LUMPUR

Our basket of goods and services in Kuala Lumpur fell by 3.2% in ringgit terms, largely caused by a steep decline in the prices of luxury vehicles. In USD terms, our Kuala Lumpur index rose by 3.4%, buoyed by a strengthening ringgit during our data collection period. This is better than the overall index performance of 2.9%. Ladies shoes (+30.5%), men's suits (+26.0%), and degustation dinners (+16.3%) showed strong price growth.

As the most competitive city in our index, purchasing residential property, staying in a hotel suite, buying our wine, jewellery, piano and car are the cheapest. However, shopping for ladies shoes and botox treatments are the second most expensive. In addition, men's suits are the third most expensive.

Malaysia made history this year and voted the ruling Barisan Nasional coalition out. The newly elected

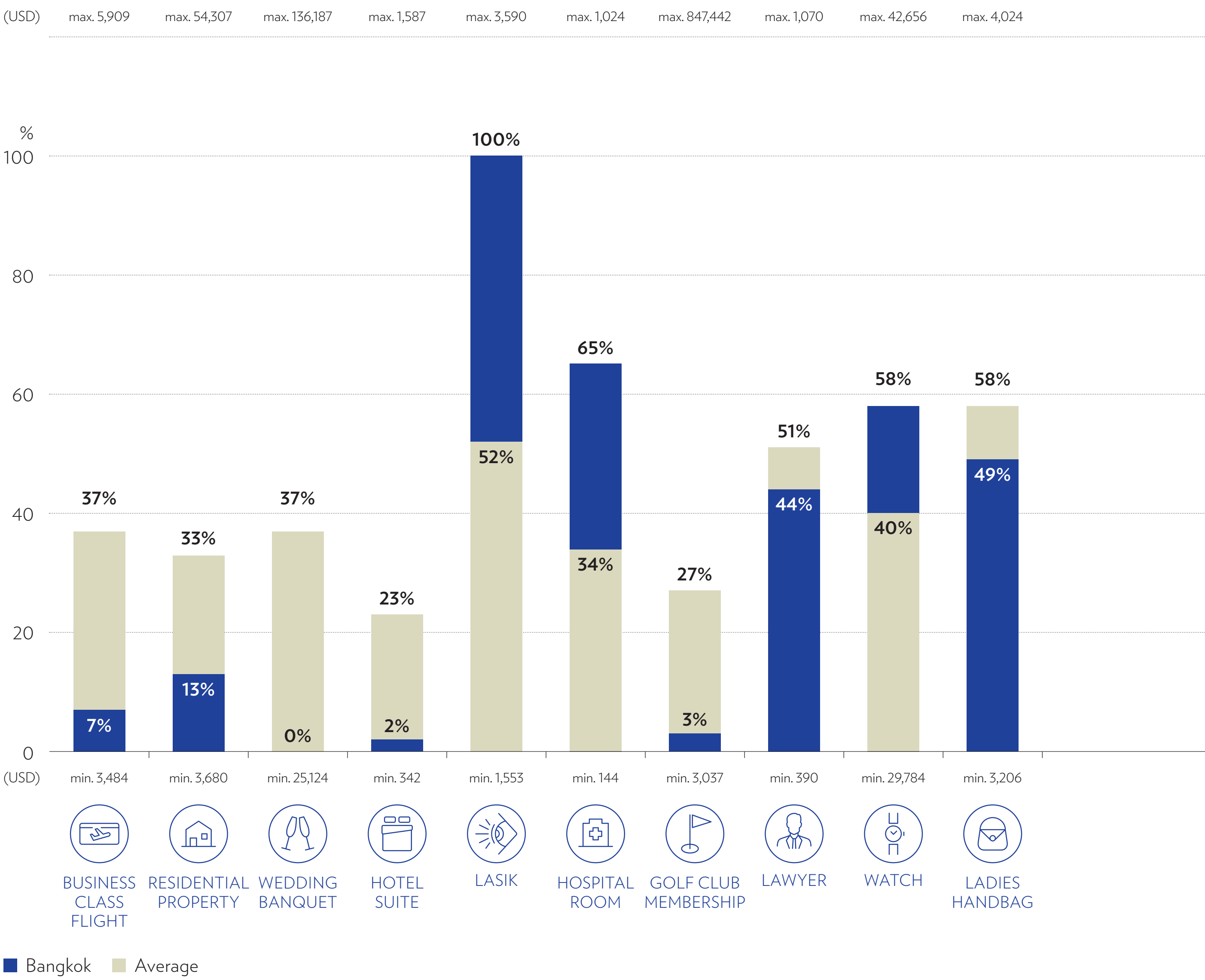


Pakatan Harapan (PH), along with its political ally Warisan, is expected to make gradual progress towards its election promises. Work is under way to consolidate its crushing public debt, and review grand infrastructure projects such as the KL-Singapore High-Speed Rail.

After growing at a robust 5.9% in 2017, we expect growth to slow down to 5.0% in 2018, declining further to 4.5% in 2019. Private consumption will continue to be the main driver of economic expansion. However, the US-China trade spat could affect exports, and the postponement or suspension of infrastructure projects will dampen growth.

With the newly elected Pakatan Harapan party delivering on its campaign promise of repealing the Goods and Services Tax (GST), consumer prices in Kuala Lumpur are projected to increase by 1.5% in 2018 versus 3.8% in 2017. From September 2018, the government introduced the Sales and Services Tax (SST). However, its reduced ambit means that its impact on consumer prices will be limited. We expect prices to rise by 2.5% in 2019.

CHART 35: JULIUS BAER LIFESTYLE INDEX - BANGKOK

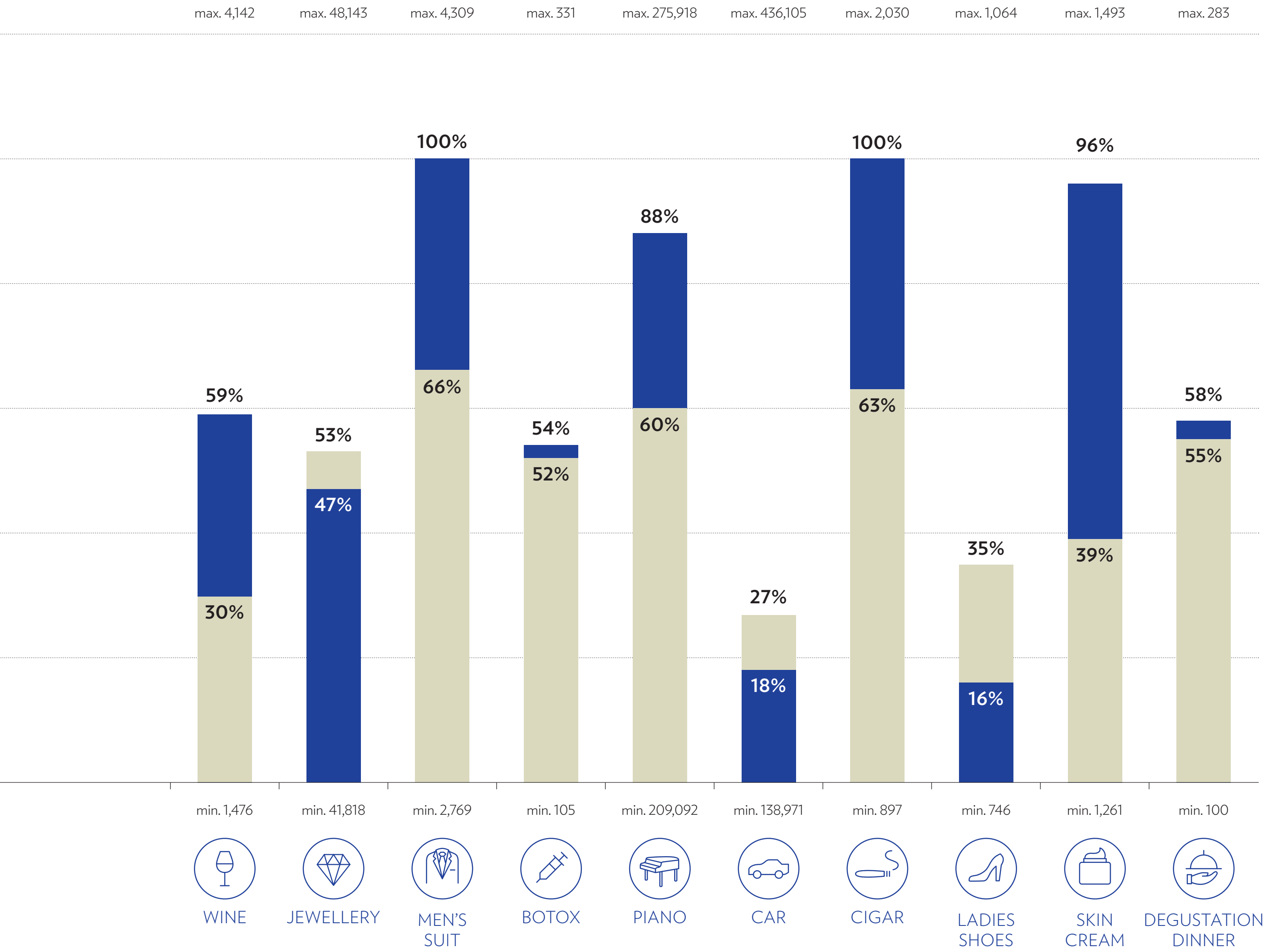


Source: Julius Baer

CITY COMPARISONS - BANGKOK

On a weighted-average basis, prices in Bangkok were flat y/y in local curreny terms (+0.9%). However, the baht's appreciation translated into prices in USD being higher by 4.9%. The price of a degustation dinner rose by close to 50% due to the inclusion of Bangkok in the Michelin Guide. Prices of cigars, men's suits and luxury residences also rose by 32.3%, 11.5%, and 10.8% respectively. In contrast, prices of botox, a luxury hotel stay, ladies shoes, and legal consultation fees fell by 27.7%, 25.9%, 15.3%, and 14.6% respectively.

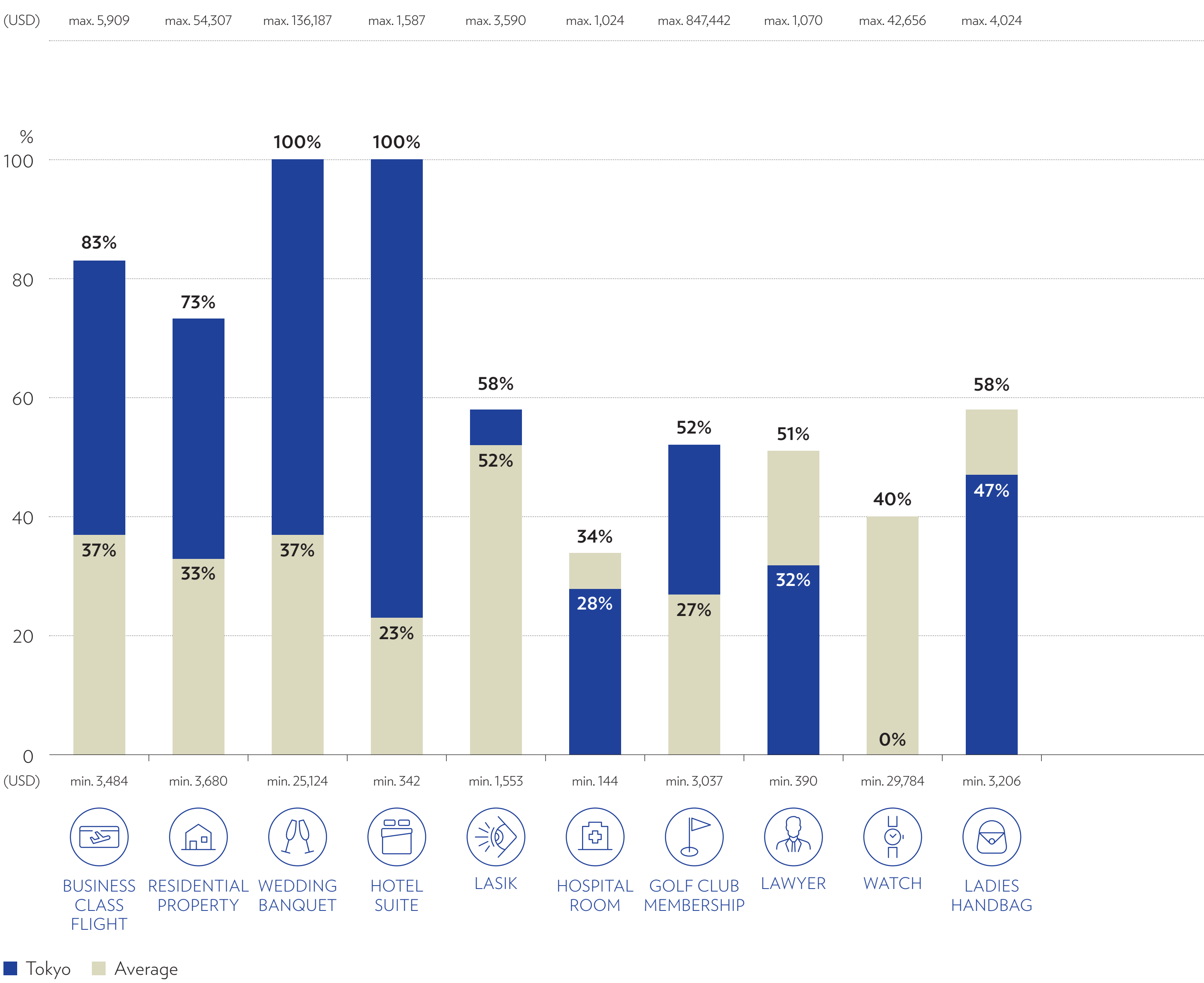
The capital of the land of smiles remains the 7th most expensive city in Asia based on our index. Lasik surgery, men's suit, and cigar are the most expensive in Bangkok, whereas throwing an opulent wedding is the cheapest in Bangkok. A golf club membership, business class flight, and night at a luxury hotel are also second cheapest among our focus cities.



Thailand's economy relies heavily on exports. The government is also focused on encouraging private spending and boosting infrastructure spending, though high household debt and lack of wage growth remain headwinds. Overall, we expect Thailand's GDP growth to reach 4.5% in 2018, falling to 3.5% in 2019.

Higher energy costs and increased domestic spending are expected to push inflation higher, and we expect inflation to hit 1.5% in both 2018 and 2019.

CHART 36: JULIUS BAER LIFESTYLE INDEX - TOKYO



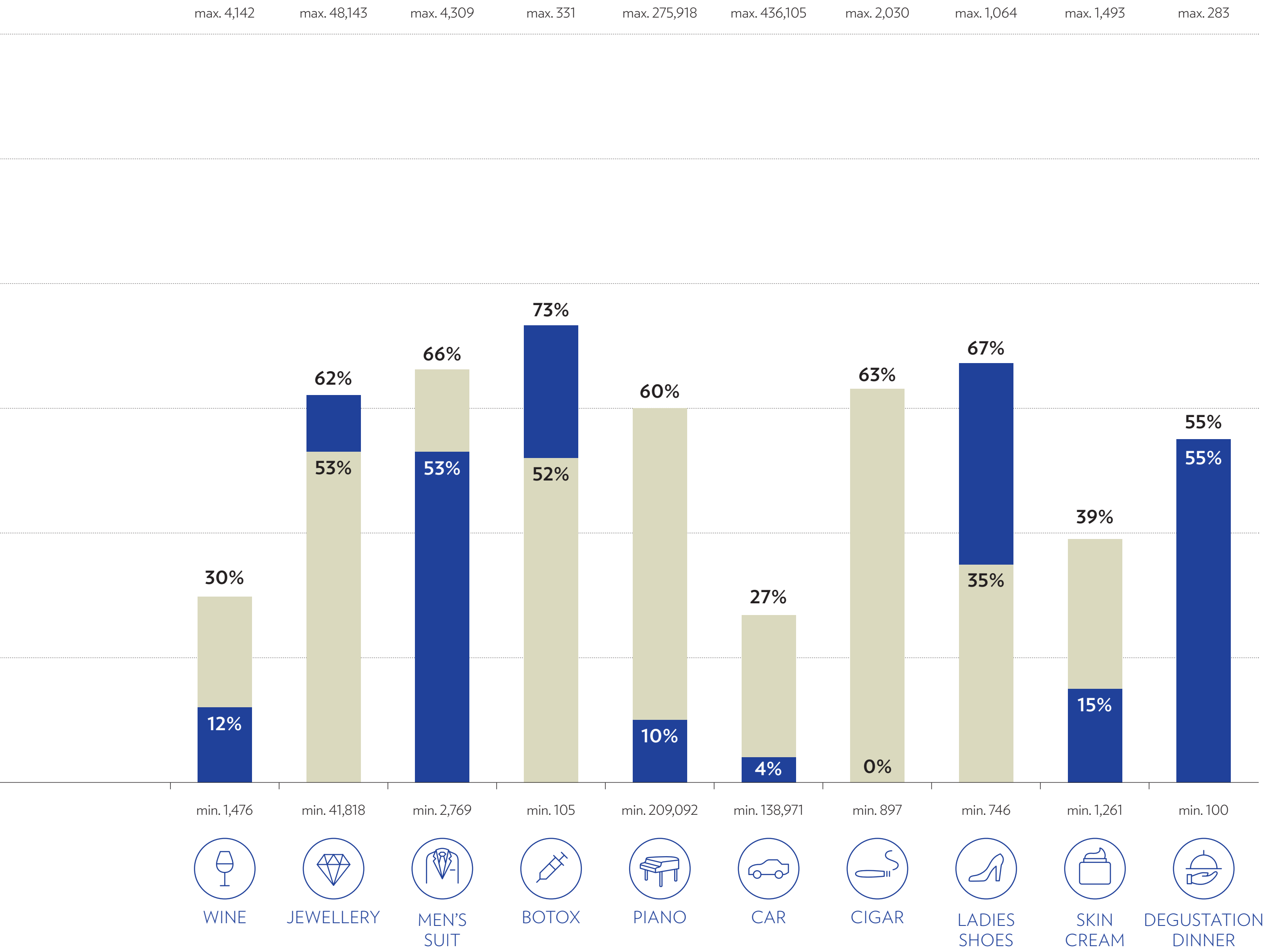
Source: Julius Baer

CITY COMPARISONS - TOKYO

Our basket of goods and services in Tokyo gained a modest 1.4% in JPY terms (+2.0% in USD terms). Strong gains were seen in hotel suites (+27.4%) on the back of increasing tourist demand. The golf club membership auction market also sent prices up 46.7%. Meanwhile, wine prices fell 18.9%, followed by watch prices (-7.3%).

Tokyo reclaims its position as the 4th most expensive city in Asia. Japanese service excellence does not come cheap. Hosting a wedding banquet and staying a night at a hotel in Tokyo are both the most expensive in the region. Business class flights out of Tokyo and purchasing residential property are the second most expensive. Nevertheless, it is a relatively price competitive city for pianos (10th), cars (10th), cigars (11th), and watches (11th).

With the Fukushima nuclear disaster still fresh in people's minds, Japan's cabinet has approved a plan to restart nuclear reactors in the island nation. Japan's continued commitment towards renewables will also ameliorate the effects of volatile oil prices.



The land of the rising sun also aims to attract 40 million foreign visitors by 2020, when the Summer Olympics will be held in Tokyo. However, a series of natural disasters have deterred tourists and numbers declined 5.3% y/y.

The world's second largest developed economy, Japan's GDP is still largely driven by household consumption. However, it is under threat from weakening consumer sentiment in recent quarters. Overall, we expect Japan to grow at 1.1% in both 2018 and 2019.

Inflation is expected to remain below the Bank of Japan's (BoJ) desired 2% level. Household inflation sentiment has begun to weaken and the BoJ's accomodative monetary policy is losing steam. Though the consumption tax is scheduled to increase to 10% in October 2019, we forecast inflation to be 1.0% both 2018 and 2019.

We hold a neutral view on the yen in the longer term term owing to its reputation as a classical safe-haven currency in volatile markets. However, unsustainable fiscal positions remain a wild card.

INTRODUCING THE HIS & HERS INDEX

THE PRICE OF DRESSING UP IN ASIA

If the recent blockbuster film 'Crazy Rich Asians' is an accurate depiction of the lifestyles of Asian HNWIs, dressing up the part requires substantial effort and investment. A classic timepiece? Check. A delicately stitched lambskin bag? Check. Fine leather oxfords and pumps? Check.

This year's thematic piece focuses on 'Womenomics in Asia', which discusses about the purchasing power of Asian females for luxury goods. A prevalent mindset among mainland Chinese women is that spending on luxury goods is considered a long-term investment on their image, which can help them to gain social capital and advance in their careers.

This then begs the question – which Asian city is most expensive and price competitive to conjure the image of a well-groomed HNWI in Asia? Does it cost more for a woman to look good relative to a man ('pink tax')?

In this year's edition of the Wealth Report Asia, we introduce the His & Hers Index. This index compares the prices of several luxury goods in relation to personal adornment and grooming – wrist accessories, outfits, bags, shoes and fragrances – specific to each gender across all Asian cities.

CHART 37: HIS INDEX RANKING IN USD TERMS (2018)

	Hong Kong	Singapore	Shanghai	Mumbai	Taipei	Jakarta	Manila	Seoul	Kuala Lumpur	Bangkok	Tokyo
Wrist accessory 2018 (Men)											
Rolex, Day-Date II	8	6	1	9	4	5	7	2	10	3	11
Outfit											
Hermès Quentin reversible belt	9	4	10	3	7	11	2	6	8	5	1
Bag											
Louis Vuitton Porte-Documents Voyage	4	7	1	6	2	11	8	3	9	5	10
Shoe											
Ferragamo Cap-Toe Oxford	8	7	3	4	1	10	9	2	5	11	6
Fragrance											
Jo Malone Lime Basil & Mandarin cologne	7	8	2	10	4	9	1	3	11	5	6

Source: Julius Baer

CHART 38: HERS INDEX RANKING IN USD TERMS (2018)

	Hong Kong	Singapore	Shanghai	Mumbai	Taipei	Jakarta	Manila	Seoul	Kuala Lumpur	Bangkok	Tokyo
Wrist accessory											
Cartier Love Bracelet - white gold, diamond-paved	10	7	1	9	8	5	2	3	11	6	4
Outfit											
Hermès Etriers Tattoo scarf	9	11	4	2	5	10	7	1	6	8	3
Bag											
Diorama in black lambskin	6	5	1	11	10	4	3	2	9	7	8
Shoe											
Christian Louboutin pumps	8	4	11	10	5	9	7	1	2	6	3
Fragrance											
Penhaligon's The Coveted Duchess Rose Eau de Parfum	5	4	1	10	2	7	9	3	8	11	6

Source: Julius Baer

Across all categories, Seoul comes up as the most expensive city for both male and female luxury goods. Seoul ranked consistently among the top three most expensive cities for female luxury goods, particularly for the ladies scarves and shoes. This could be largely owing to a special excise tax of up to 20% on certain luxury goods imports. South Korea, Asia's third largest luxury market behind China and Japan, has become a tougher place for global fashion houses to compete as millennials turn to more accessible contemporary brands. Nevertheless, according to McKinsey, the love of luxury and the cultural pressure to conform should continue to support the South Korean luxury market.

On the other hand, Jakarta ranks as the cheapest for men's luxury goods. Interestingly, the men's bag is the most price competitive in Jakarta (USD 1,006) at less than one-third of the price in Shanghai (USD 3,263). Indonesia's luxury tax on branded items is significantly lower compared to most other Asian cities, so as to encourage locals to shop domestically instead of overseas. Indonesia is gaining stature as a growing luxury market in Southeast Asia with high growth potential given its small base.

Mumbai is the most price competitive for luxury female goods, particularly for handbags, shoes and perfume. The luxury industry in India is becoming more female-dominated, which presents a huge potential for leading global luxury brands to expand their presence.

Conclusion? To get your dose of tangible luxury, avoid Seoul. You will get more bang for your buck in Jakarta and Mumbai instead.

IS THE PINK LUXURY TAX REAL?

In 2015, New York City's Department of Consumer Affairs published a study called 'From Cradle to Cane: The Cost of Being a Female Consumer.' The study compared the prices of over 800 products and examined how women pay more for everyday products than men from birth until old age. According to the study, women paid 48% more for shampoos and conditioners, 6% more for body wash and 11% for razors, and the list goes on.

A study of e-commerce stores of Saint Laurent, Valentino, Gucci, Dolce & Gabbana, Balmain and Alexander Wang in 2016 found 17 instances where the male and female versions of a style had different prices[7]. In most cases, the women's was more expensive than the men's version, with women charged up to USD 1,000 more.

Our His & Hers Lifestyle Index findings corroborate this to a certain degree. On average, it costs USD 2,158 more to purchase our Hers index relative to our His index. The differential is lower (USD 126) when we exclude the wrist accessory (which is skewed higher due to the Cartier Love Bracelet for women).

Obviously, there are other factors at work beyond discriminatory pricing for luxury goods such as the fact that women are willing to pay more for fashion, or that women's products require more workmanship than men's. In addition, price inflation is sometimes the way to also establish product value especially with luxury brands.

Across all categories, Seoul comes up as the most expensive city for both male and female luxury goods.

[7] The Business of Fashion - Why Fashion's 'Pink Tax' Means Women Pay More

PRICE RANKINGS OF MALE AND FEMALE LUXURY GOODS ACROSS ASIA

CHART 39: PRICE RANKING STARTING FROM THE MOST EXPENSIVE

HIS INDEX		HERS INDEX
Seoul	1	Seoul
Shanghai	2	Shanghai
Taipei	3	Tokyo
Manila	4	Manila
Bangkok	5	Taipei
Singapore, Mumbai	6	Singapore
	7	Jakarta
Tokyo	8	Kuala Lumpur
Hong Kong	9	Hong Kong, Bangkok
Kuala Lumpur	10	
Jakarta	11	Mumbai

Source: Julius Baer

WOMENOMICS IN ASIA

ASCENT OF THE CLASSY RICH ASIAN WOMAN

Asia has produced many compelling growth stories. Could there be more in the pipeline? In the hunt for the continent's next growth engines, investors may do better to think not in terms of markets but demographics – specifically, females in Asia.

The buying power of women in Asia is a force to be reckoned with, driven by several factors. Women in Asia are increasingly employed at senior levels – 31% of senior management positions in the region were held by women in 2017, compared to 29% in 2016[8]. Countries with the highest percentage of women in managerial positions are China and Malaysia, both at 35%.

According to Agility Research & Strategy's Affluent Insights Luxury Study 2017 – 2018, Asian women, particularly in Malaysia, Thailand and China, are increasingly becoming self-made millionaires. By extension, they are also more financially savvy and discerning consumers of luxury goods and services compared to a generation ago.

Asian women, particularly in Malaysia, Thailand and China, are increasingly becoming self-made millionaires. They are also more financially savvy and discerning consumers of luxury goods and services compared to a generation ago.

THE (PURCHASING) FORCE IS STRONG WITH HER

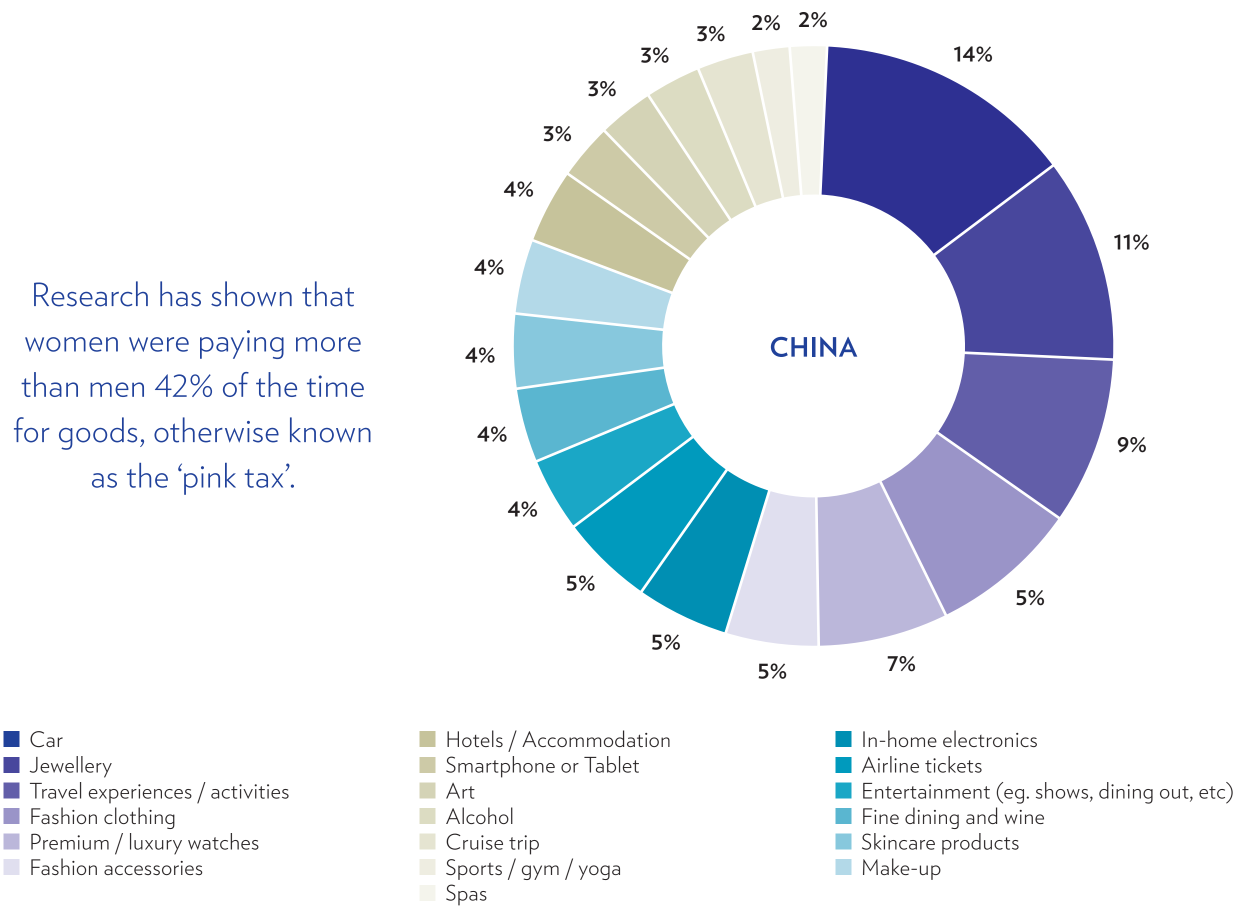
Accounting for the lion's share of luxury spending in the region is indisputably China. The composition of China's high-end spending has changed over the past five years from being male-dominated to female centric. Previously, China's luxury sales were dominated by men's luxury items, mainly luxury watches, due to the practice of gift-giving. That has since come to a halt with the anti-graft drive. Instead, female spending on designer handbags and costly perfume took centre stage. A prevalent mindset among mainland Chinese women is that luxury goods spending is considered a long-term investment on their image, which can help them to advance socially and in their careers. Research has shown that women were paying more than men 42% of the time for goods, otherwise known as the 'pink tax'[9]. More details can be found in our newly launched His & Hers Index section.

With the rise in spending power, women are also spending more on products that were traditionally viewed as masculine domains. Cars, which are increasingly seen by females as a status symbol, constitute the highest proportion of spending among affluent females in China. In a survey by Audi, women are spending more on cars nowadays not only because of their functional properties, but also because of the design and brand prestige.

[8] Hays – 2017 Hays Asia Salary Guide
[9] Listen Money Matters - The Pink Tax - The Cost of Being a Female Consumer

CHART 40: PROPORTION OF EXPENDITURE OVER THE LAST 12 MONTHS

Research has shown that women were paying more than men 42% of the time for goods, otherwise known as the 'pink tax'.



Source: Affluent Insights Luxury Study 2017-2018

CATERING TO THE MILLENNIAL 'SHE-CONOMY'

A new generation of spenders is behind the spike in luxury goods sales in China. The profile? Young, female, increasingly fashion-conscious, free with spending and active on social media. Driven by the ease of online shopping and financial support from parents, Chinese female millennials are buttressing the luxury market at home and abroad. A Bain & Company survey showed that 93% of millennials will tend to buy more luxury goods over the next three years.

Brands are awakening to the massive opportunities arising from this demographic. A study by Agility Research showed that the key priorities for this consumer segment are health and fitness, which has spurred the development of luxury 'streetwear' and sportswear such as Lululemon. Luxury brands such as Louis Vuitton, Cartier, Christian Dior and Gucci are also using social media platforms such as WeChat and Weibo to connect with Chinese millennials.

The brand consciousness of this young female demographic has also convinced major brands to adopt more fashion cues into their product design and marketing approaches. Samsung has collaborated with fashion brands such as Swarovski to produce phone covers. Audi sponsored events such as The Hong Kong Fashion Extravaganza to enhance its brand prestige. It also launched two compact car models in 2015, on the back of their popularity with Asian females.

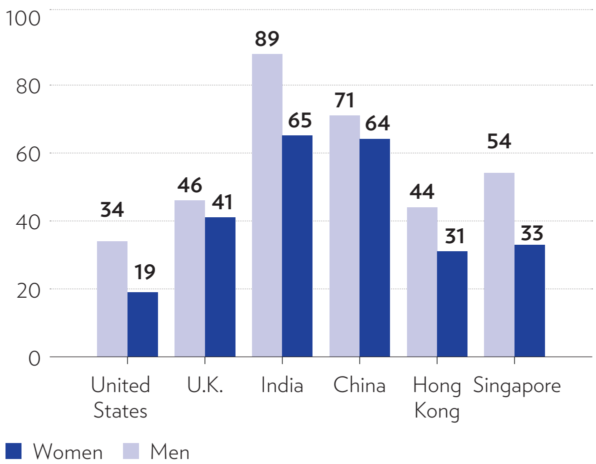
FEMALES IN ASIA – SAVVY SHOPPERS, INTUITIVE INVESTORS

Women in Asia are not purely preoccupied with the consumption of luxury goods and services – they are also proving their mettle at making investment decisions. Harvard Business Review featured a report with a survey among women across the US, the UK, China, India, Hong Kong and Singapore with personal income of at least USD 100,000 per annum and investable assets of USD 500,000. Results showed that women in Asia were remarkably confident about their financial knowledge, as compared to their counterparts in the West. They also surpassed women in the US and UK in terms of risk tolerance and senior representation in the financial services industry across the region.

Much of this trend is attributed to Asia's economic boom over the past decade, which has accelerated the exponential growth of the female market – a burgeoning number of business and tech-savvy women making corporate decisions involving billions of dollars of assets.

CHART 41: FINANCIAL CONFIDENCE

Women in India and China have it
% of women who rate themselves 'very knowledgeable' or 'extremely knowledgeable' about finance matters



Source: "Harnessing The Power Of The Purse", Center For Talent Innovation, 2013

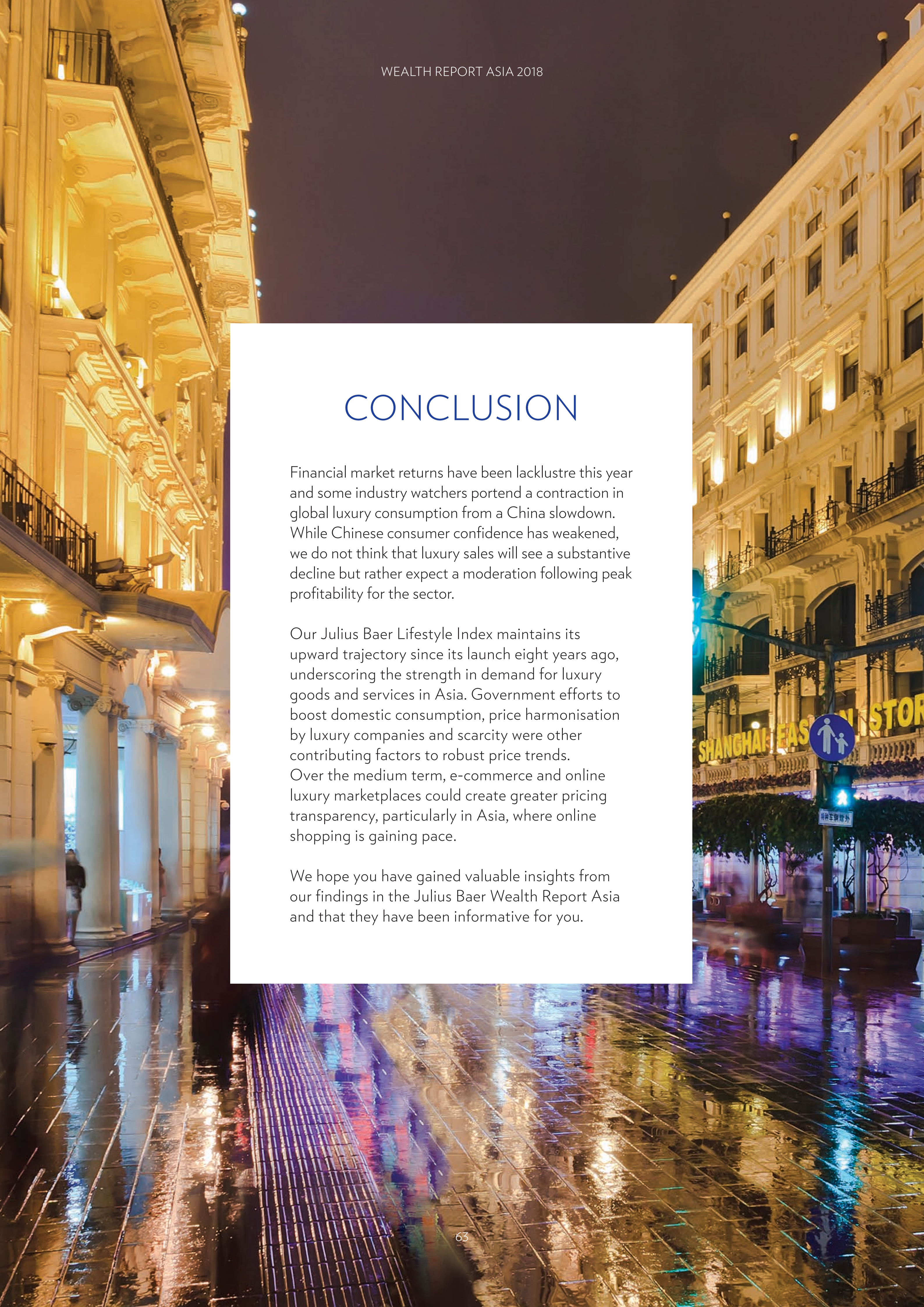
As more women generate their own wealth, they are increasingly controlling the deployment of their assets. The vast majority of women surveyed across China (87%), India (80%), Hong Kong (71%) and Singapore (59%) are financial decision makers in their households, exceeding the US (44%).

In Hong Kong and Singapore, women are as likely as men to be more comfortable with a more aggressive portfolio allocation. This strengthening undertone of equality, coupled with Asian women's confidence and risk tolerance levels, seem to influence diversity dynamics in financial services across the region as well. For example, wealth management teams in Asia tend to feature higher proportions of female advisors than their counterparts in the US and the UK. In China, women outnumber men on advisory teams by three to two, while about three-quarters of wealth advisors in Singapore are women. These statistics substantiate the notable stature of women in key Asian financial centres.

IN SUMMARY

What does the face of wealth look like today? It appears to be increasingly young, self-created – and female.

The rising tide of female wealth in Asia bears close watching. Asian women consumers and investors are shaping the future of various industries. The world would do well to sit up and take note of this demographic.



CONCLUSION

Financial market returns have been lacklustre this year and some industry watchers portend a contraction in global luxury consumption from a China slowdown. While Chinese consumer confidence has weakened, we do not think that luxury sales will see a substantive decline but rather expect a moderation following peak profitability for the sector.

Our Julius Baer Lifestyle Index maintains its upward trajectory since its launch eight years ago, underscoring the strength in demand for luxury goods and services in Asia. Government efforts to boost domestic consumption, price harmonisation by luxury companies and scarcity were other contributing factors to robust price trends.
Over the medium term, e-commerce and online luxury marketplaces could create greater pricing transparency, particularly in Asia, where online shopping is gaining pace.

We hope you have gained valuable insights from our findings in the Julius Baer Wealth Report Asia and that they have been informative for you.

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12.2018 Publ. No. PU00198EN