Julius Bär | 中国银行 BANK OF CHINA

JULIUS BAER – BANK OF CHINA WEALTH REPORT: ASIA

OCTOBER 2014

EDITORIAL

Dear Reader,

This year marks a departure point for the Chinese economy, which we believe will have profound impacts far beyond the region. Already the world's premier manufacturing exporter, the groundwork is being laid for China to transform its service sector, move up the global value chain and sustain the rapid increase in wealth that the world is witnessing today. Julius Baer and Bank of China are working together to promote the exchange of wealth management experience and knowledge, as well as to build a strong bridge for our international clientele into this economy.

The Julius Baer – Bank of China Wealth Report: Asia is another milestone in the strategic partnership between our two firms. Ranging from the Bohai and Yangtze regions to the western frontier, Julius Baer and Bank of China's report offers a unique insight into how China is changing. We have combined our efforts to examine closely the aspirations of China's High Net Worth Individuals, who themselves are the entrepreneurs and business leaders at the forefront of the economic transition.
In addition to a ground breaking survey of Bank of China's client base, this year's report features a Lifestyle Index dedicated to China alone, echoing our long standing work in tracking the cost of luxury living across Asia.

Preparing the next generation is a universal consideration, and hence we dedicate a special section to gauging how High Net Worth Individuals across Asia are engaging in their children's education – an item in the Julius Baer Lifestyle Index that has consistently risen in double digits since its inception in 2011.

With these topics and more, we invite you to share the insights of the joint Julius Baer – Bank of China Wealth Report: Asia for 2014 and thank you for your interest.

Boris F. J. Collardi
Chief Executive Officer
President of the Executive Board
Julius Baer Group

Shumin Zhu
Executive Vice President
Bank of China Limited

TABLE OF CONTENTS

INTRODUCTION TO JULIUS BAER

Julius Baer: the international reference in pure play private banking, driven by clients' needs, founded on a solid Swiss heritage.

Julius Baer is the leading Swiss private banking group. We focus on providing high–end services and in–depth advice to private clients based around the world. Our client relationships are built on partnership, continuity and mutual trust. The renowned brand Julius Baer is synonymous with best–in–class investment solutions and comprehensive advice based on a truly open product and service platform. We manage our company for the long term – going on 125 years now.

Committed to excellence in everything we do, we strive to position our Group at the forefront of the global wealth management industry. Independent in all aspects of our business activities, we pursue a corporate strategy based primarily on six cornerstones:

- a business model dedicated to pure play private banking
- a distinct value proposition and service excellence focus
- a truly open and managed product platform
- a client–centric management culture
- a strong brand name
- a rich Swiss heritage and independence since 1890

These cornerstones are complemented by prudent financial and risk management, resulting in a very strong capital base and comparatively low risk profile. We aim at achieving sustainable and industry–leading profitable growth, thus remaining competitive and highly attractive for our clients, for the relationship managers (RMs) taking care of them, for all other employees and for our Swiss and international shareholder base.

In Asia, our second home market, the Bank employs more than 1,000 across Hong Kong, Jakarta, Singapore, Shanghai and Tokyo. A strong testimony to our dedication to serving clients in the region, Julius Baer has been awarded 'Best Boutique Private Bank in Asia' by The Asset, a leading finance industry publication for five consecutive years since 2010.

Julius Baer is currently in the final stages of integrating Merrill Lynch's International Wealth Management business outside the US. This will increase the Group's presence to more than 25 countries and 50 locations.

BANK OF CHINA OVERVIEW

Bank of China was formally established in February 1912 following the approval of Dr. Sun Yat–sen. From 1912 to 1949, the Bank served consecutively as the country's central bank, international exchange bank and specialised international trade bank. Fulfilling its commitment to serving the public and developing China's financial services sector, the Bank rose to a leading position in the Chinese financial industry and developed a good standing in the international financial community, despite many hardships and setbacks. After 1949, with a long history as the state–designated specialised foreign exchange and trade bank, the Bank became responsible for managing China's foreign exchange operations and provided vital support to the nation's foreign trade development and economic infrastructure through its offering of international trade settlement, overseas fund transfer and other non–trade foreign exchange services. During China's reform and opening up period, the Bank seized the historic opportunity presented by the government's strategy of capitalising on foreign funds and advanced technologies to boost economic development, and became the country's key foreign financing channel by building up its competitive advantages in foreign exchange business. In 1994, the Bank was transformed into a wholly state–owned commercial bank. In August 2004, Bank of China Limited was incorporated. The Bank was listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange in June and July 2006 respectively, becoming the first Chinese commercial bank to launch an A–Share and H–Share initial public offering and achieve a dual listing in both markets. In 2013, Bank of China was enrolled again as a Global Systemically Important Bank, becoming the sole financial institution from emerging economies to be enrolled for three consecutive years.

As China's most international and diversified bank, the Bank provides a comprehensive range of financial services to customers across the Chinese mainland, Hong Kong, Macau, Taiwan and 37 countries. The Bank's core business is commercial banking, including corporate banking, personal banking and financial markets services. BOC International Holdings Limited, a wholly owned subsidiary, is the Bank's investment banking arm. Bank of China Group Insurance Company Limited and Bank of China Insurance Company Limited, both wholly owned subsidiaries, run the Bank's insurance business. Bank of China Group Investment Limited, a wholly owned subsidiary, undertakes the Bank's direct investment and investment management business. Bank of China Investment Management Co., Ltd., a controlled subsidiary, operates the Bank's fund management business. BOC Aviation Pte. Ltd., a wholly owned subsidiary, is in charge of the Bank's aircraft leasing business.

Bank of China has upheld the spirit of "pursuing excellence" throughout its hundred–year history. With adoration of the nation in its soul, integrity as its backbone, reform and innovation as its path forward and "people first" as its guiding principle, the Bank has built up an excellent brand image that is widely recognised within the industry and by its customers. Faced with new historic opportunities, the Bank will meet its social responsibilities, strive for excellence, and make further contributions to achieving the China Dream and the great rejuvenation of the Chinese nation.

中国银行
BANK OF CHINA

MACRO LANDSCAPE

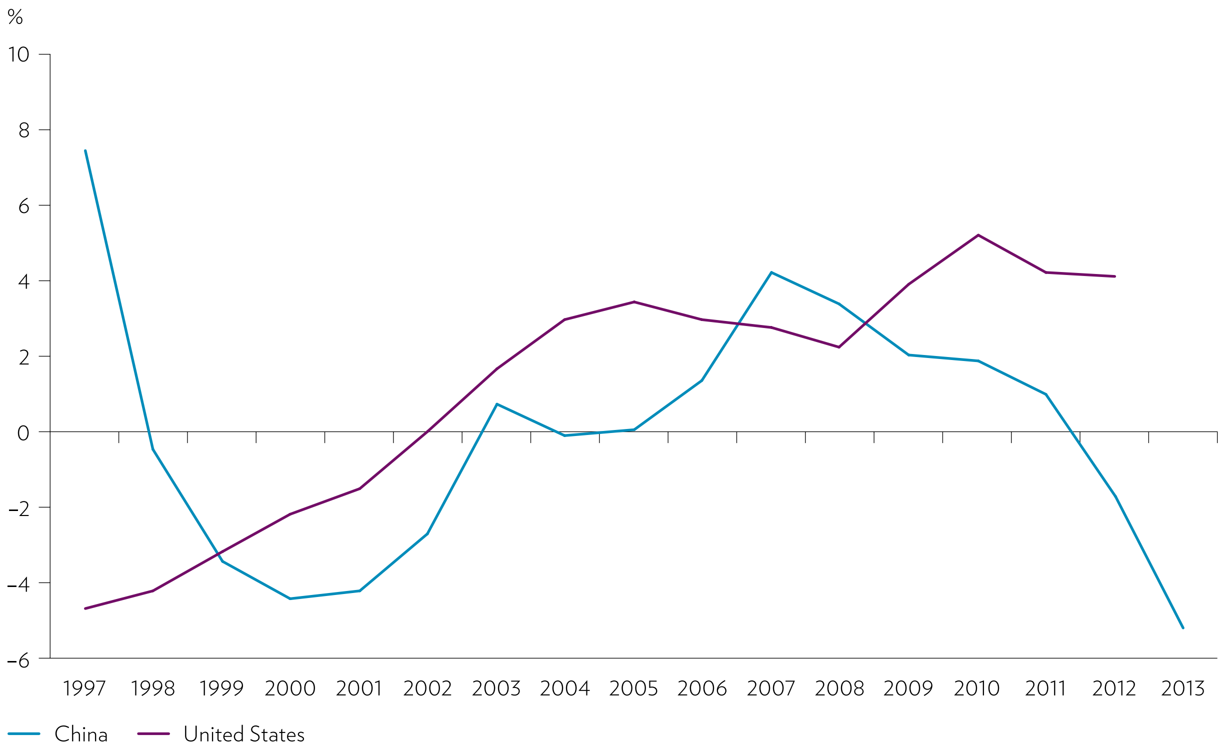
The pace of prosperity, the promise of change

In this opening chapter of the Julius Baer – Bank of China Wealth Report: Asia, we examine where China stands in its mission to reinvigorate productivity and underwrite future wealth. The symbol for this change is the enhanced role of the renminbi, which is poised to achieve reserve currency status in the medium term.

Old models can made refreshed

China is undergoing a transition whose promise is that the prosperity created over the past thirty years will continue to grow for the decades to come. With per capita income having surged twenty–fold since 1980, based on International Monetary Fund (IMF) data, some might argue that with such a track record of success, why change the economic model? 'More of the same', being a system based on low–value added, labour intensive manufacturing exports and a largely closed capital account that facilitates inexpensive credit could indeed keep economic growth high for years to come. China's policy makers have, however, clearly identified that the economies of scale to this model are trailing off, necessitating deep changes. At the heart of this challenge is the requirement to address China's declining rates of productivity. Without reversing falling productivity, rising wages will become hard to sustain and in the medium term, an inefficient economy will struggle to service the debt that has been accumulated in recent years. This challenge is not unique to China (the United States, United Kingdom and Japan all have seen productivity slide in recent years) but given the inflection point that China finds itself at today, the importance of this task is arguably higher.

Chart 1: Total factor productivity, measured as deviation from trend, in %

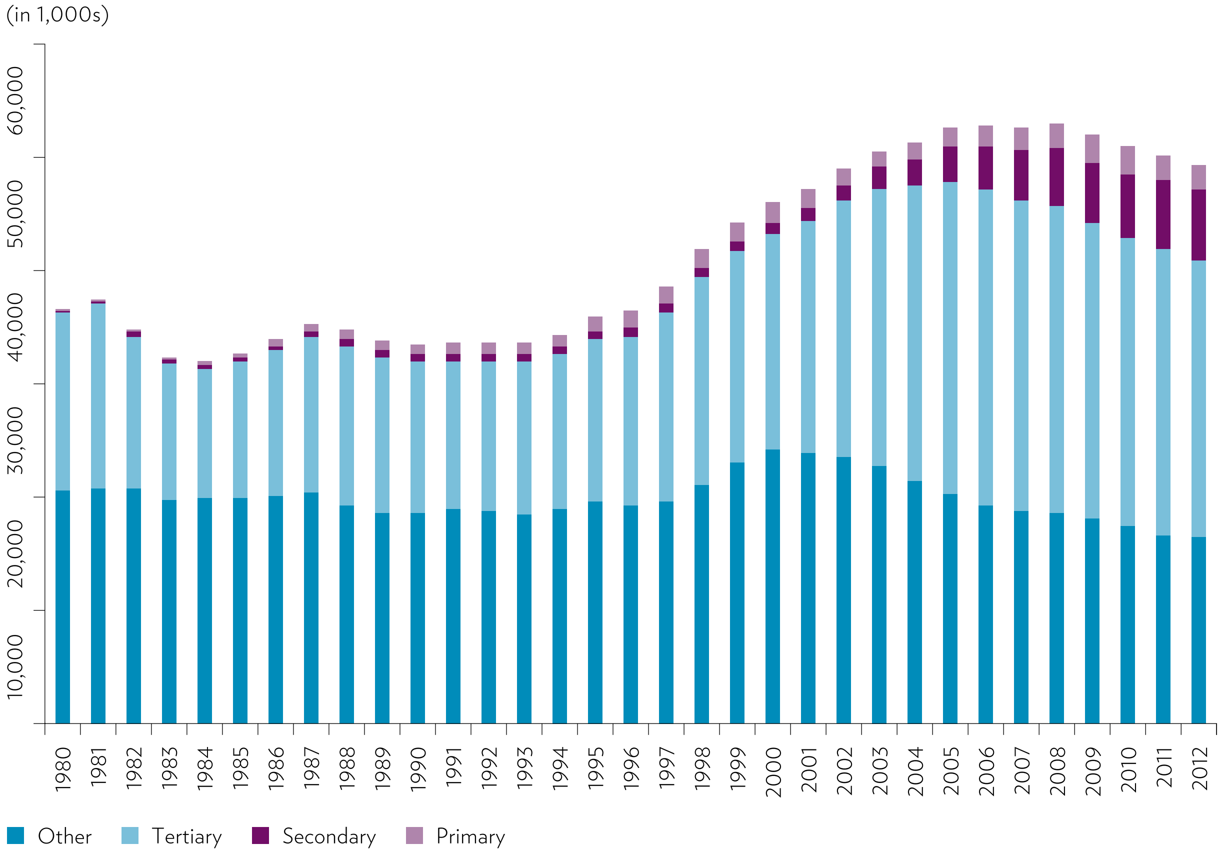


Source: Nomura, Bank of China, Julius Baer

Different growth rates for a different economy

China's Gross Domestic Product (GDP) growth rates have averaged 10% over the preceding two decades, peaking at 14% in 2007 and hitting a low of 7.6% in 1999. With policy makers' current de–emphasis on headline growth in favour of growth–sustaining reforms, this has given rise to persistent concerns that there is no 'floor' to the economy, often simplified into 'hard landing fears'.

Chart 2: Graduates by level of education



Source: Conference Board China Center Working Paper 'China's Growth and Productivity Performance Debate Revisited', Harry X. Wu, January 2014, Bank of China, Julius Baer

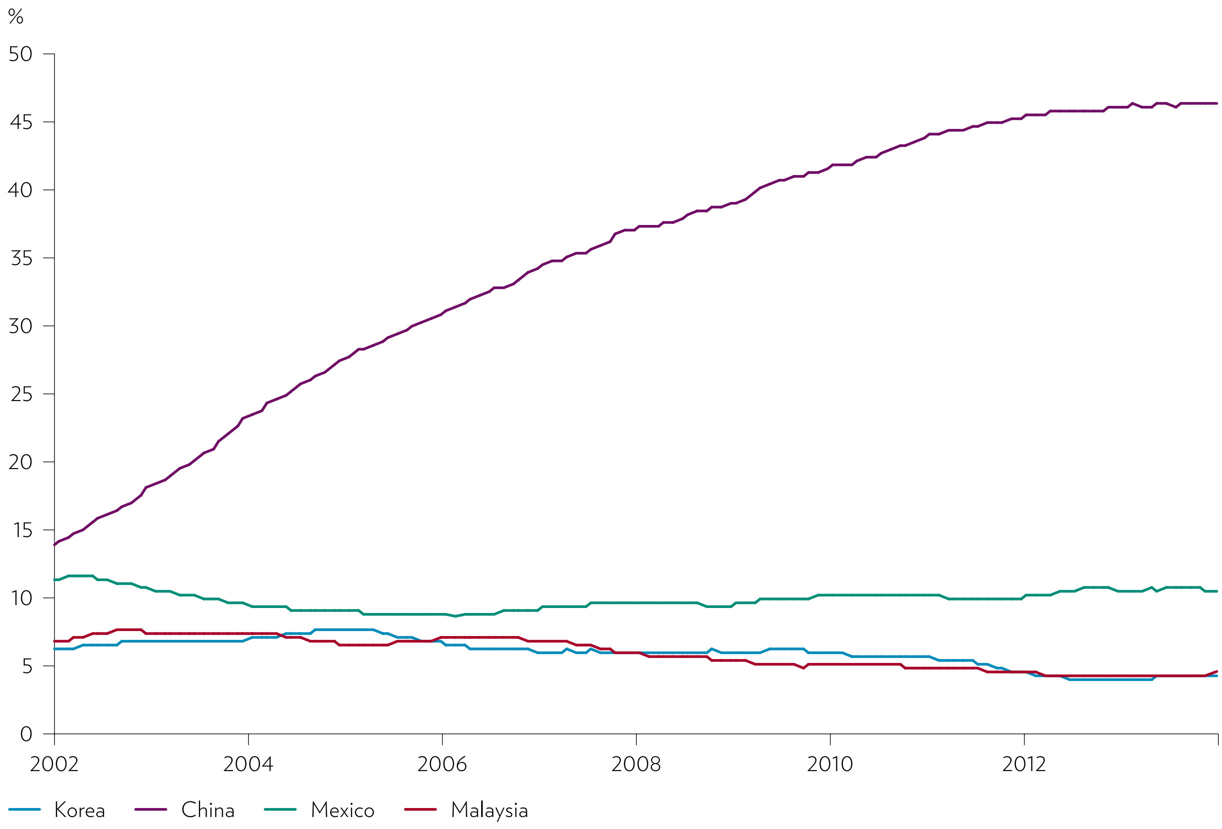
To understand the longer term question of 'how fast should China grow?', first we need to recongise how much and fast China has changed, purely from a demographic perspective. According to official sources, the combined labour force in China, as per 2012, was in effect, 800 million people, from within a population of 1.35 billion. The labour force participation rate peaked in 1990 at 77%, and has been in decline since. This echoes the reality that overall population growth has slowed to about 0.5% per year in 2012 (from about 1.5% per year in the 1990s), creating very different labour market dynamics. In 1990, 570 million people worked in agriculture, according to official sources, whereas today this number is likely to be less than half. By the same token, in 2012 China saw six million new university graduates – the educational attainment group with the largest growth rate. The 24 million children in China who completed primary school in 2012 were indeed a graduating class that was 3% smaller than the previous year.

What China's policymakers conclude, in our view, is that lower, less volatile rates of growth are appropriate over the coming decade, in view of an unlikely material increase in population growth rates – irrespective of loosening of the One Child Policy – but focus is therefore understandably placed on the productivity challenge. This is because the profile of the population has changed enormously: growing less fast and possessing much higher human capital.

Shorter term, both fiscal and monetary policy are instruments at the disposal of the authorities to fine–tune economic momentum. The 7% level appears to the consensus amongst policy makers as the target rate for this fine–tuning. At 7%, the economy creates enough 'cushion' to absorb the internal shocks of adjustment that come as a natural consequence of structural reform. But we argue that China is unique among all nations for the speed with which such demographic and human capital shifts have occurred, raising the stakes of the outcome of productivity enhancing structural reforms. In other words, we see following through with reform as being higher up on the policy agenda than fine–tuning.

Nevertheless, 'hard landing' fears do materialise from time to time and it is worthwhile to examine why this is. In part, this can be explained as follows: China is the unassailable leader in manufacturing exports, illustrated, for example by its uniquely large market share of the electronics goods that are imported into the United States and European Union. Having surged over the past decade, the growth of this market share has stagnated, eliciting a chorus of 'what next for China?' In other words, investors are seeking the roadmap for China's economy, it having achieved so much already, assuming that the marginal benefits of trade have been exhausted.

Chart 3: Share in US & EU imports of electronics (%, 12mma)

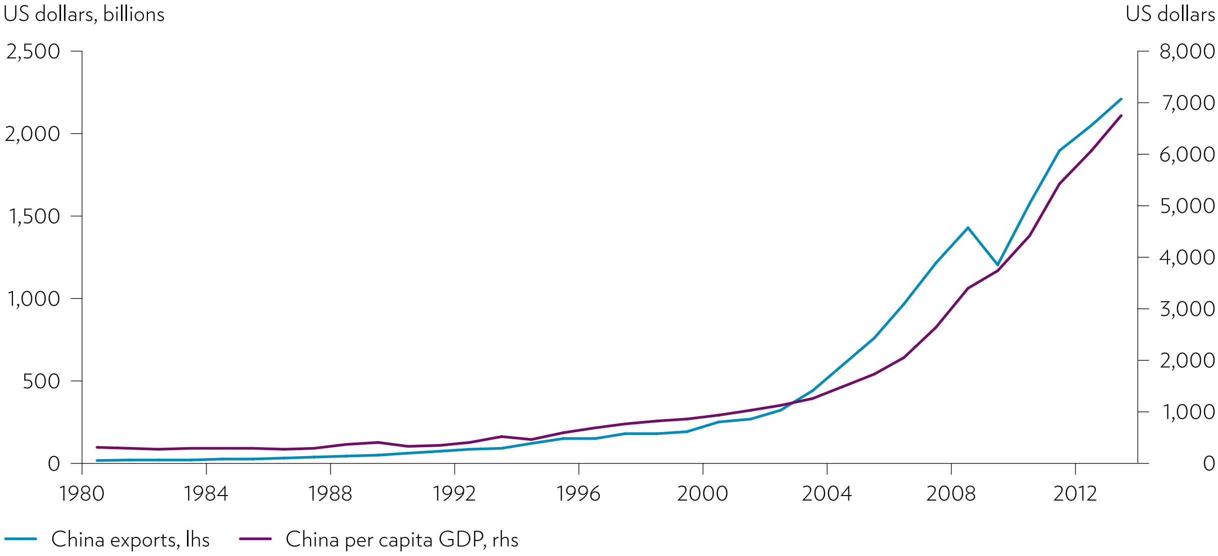


Source: CEIC, UBS estimates, Julius Baer

Trade has and will continue to matter

In this context, we maintain that there is a misconception about the future importance of trade in China, being that as it becomes a service and consumption oriented economy, the relevance of trade will or should decline. We argue the opposite: having become the world's single largest exporter in 2010, China will not sacrifice its top position in the trade league tables and the previous dominant intra–regional trading relationship of old, transatlantic trade, is unlikely ever to regain the same importance it once had. Indeed, the shock of the 2008 global economic crisis gave rise to the idea that trade went into suspended animation, albeit very briefly. Small open economies, without the buffer of a large domestic market suffered disproportionally during this period, exposing their 'vulnerability' to a globalised world.

Chart 4: Trade and prosperity in China are closely linked



Source: Datastream, IMF, Bank of China, Julius Baer

A bygone era

In fact, since the 1950's, trade between nations has grown steadily, notwithstanding occasional bouts of slower growth. By 2050, Citigroup forecasts that the global market for the trading of goods and services will reach a staggering USD 287 trillion, an almost eight fold increase from 2010. By the same token, the league table of the top ten exporters has migrated over time, with some important developments. For example, from the 1970's through to 2000's, the United States and Germany occupied the top two slots with mature economies making up the bulk of the top ten, including smaller countries like Sweden and Belgium securing a place in the 1970's rankings. Since 2010, China has taken the top spot. Last year, China generated over USD 2.2 trillion worth of exports, retaining its undisputed position of manufacturing superpower to the rest of the world. Indeed, going back three decades, China's rapid economic growth has hinged upon achieving this status, attracting outside investment into manufacturing infrastructure, creating many millions of jobs per year and raising standards of living as part of that process.

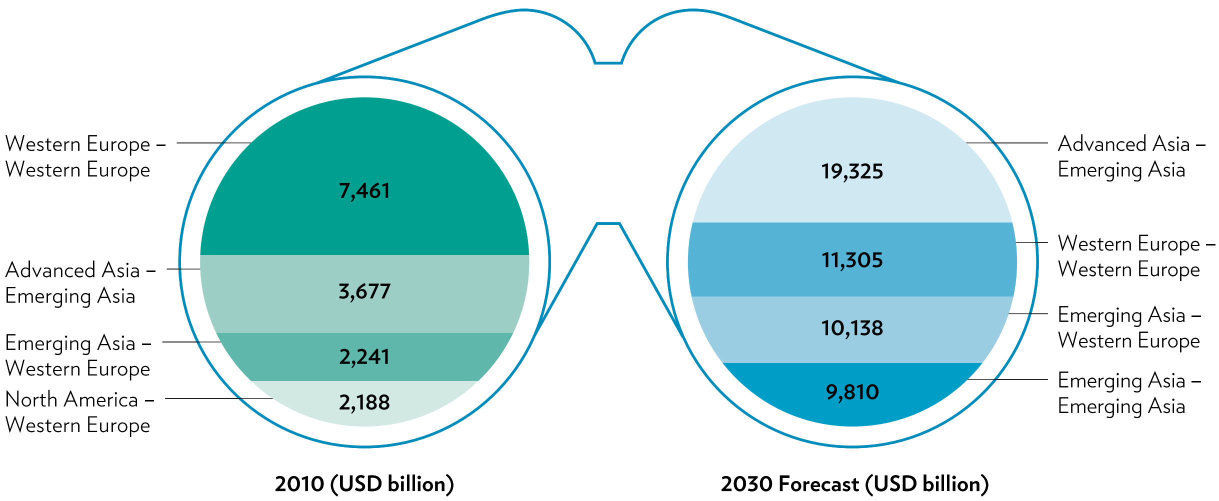
Chart 5: China has taken the top spot in trading

1970				2010			
Rank	Country	Exports (bn)*	% of World	Rank	Country	Exports (bn)*	% of World
1	USA	188	13.6%	1	China	1578	10.4%
2	Germany	149	10.8%	2	USA	1278	8.4%
3	UK	84	6.1%	3	Germany	1269	8.3%
4	Japan	84	6.1%	4	Japan	770	5.1%
5	France	79	5.7%	5	The Netherlands	572	3.8%
6	Canada	73	5.3%	6	France	521	3.4%
7	The Netherlands	58	4.2%	7	Korea	466	3.1%
8	Italy	57	4.2%	8	Italy	448	2.9%
9	Belgium	50	3.7%	9	Belgium	411	2.7%
10	Sweden	30	2.1%	10	UK	405	2.7%

Source: World Trade Organisation, U.S. Bureau of Economic Analysis, Citigroup, Bank of China, Julius Baer
* In constant 2010 USD dollars

We believe that 2010 represented a structural shift in global trade, with China at its core, which goes far beyond simply the ranking of trading nations. First, trading corridors arguably matter more than looking at bilateral relationships. This because trade encompasses a complex value chain that goes beyond just suppliers, producers, shipping companies and end consumers. In terms of geography, transatlantic trade was dominant in the mid–1980's, representing 10% of global flows, but this has since halved, according to Deutsche Bank. In 2010, reinforced by the many facets of European integration, intra–European trade had become the single largest trading block in the world covering about one fifth of the global total. By 2030, it is forecast that trade within Asia, with China as the focal point, will cover more than 16% of global trade. Put differently, tectonic shifts are taking place right now these are re–shaping the global commerce for decades to come.

Chart 6: Trading corridors: the present and what may lie ahead



Source: Citigroup, Bank of China, Julius Baer

What is equally important is to recognise that the rapid improvement in China's human capital is going to have a significant impact on what is exported in the future. We see strong evidence of this already, on multiple fronts. First, according to the World Intellectual Property Organisation, over 118,000 residents in China received equivalent patents in 2011, achieving an impressive third place in the global ranking. Second, while Research & Development (R&D) spending as a percentage of GDP still lags behind other Organisation for Economic Co–operation and Development (OECD) nations, government grants to this end have risen at least fourfold since 2003, underscoring the commitment to this area.

The Chinese government's push to foster R&D raises another commonly raised topic by those in the 'hard landing' camp: that government–sponsored policies have led to imbalances in the past, for example the large proportion of GDP growth that is linked to fixed asset investment. Specifically, the high proportion of real estate investment has long fueled concerns that a pronounced decline in housing construction activity would pull the rug out from underneath the Chinese economy.

What we observe is that as the real estate market adjusts following a significant ramp up in construction, there is renewed focus on infrastructure. While coastal regions enjoy the greatest concentration of transportation and energy infrastructure, central and western China have significant potential for further investment. Indeed, this discussion extends beyond regional comparisons. Despite massive buildups in recent years, China maintains low transportation infrastructure ratios (for example, subway and rail network density), arguing for further investment in such areas.

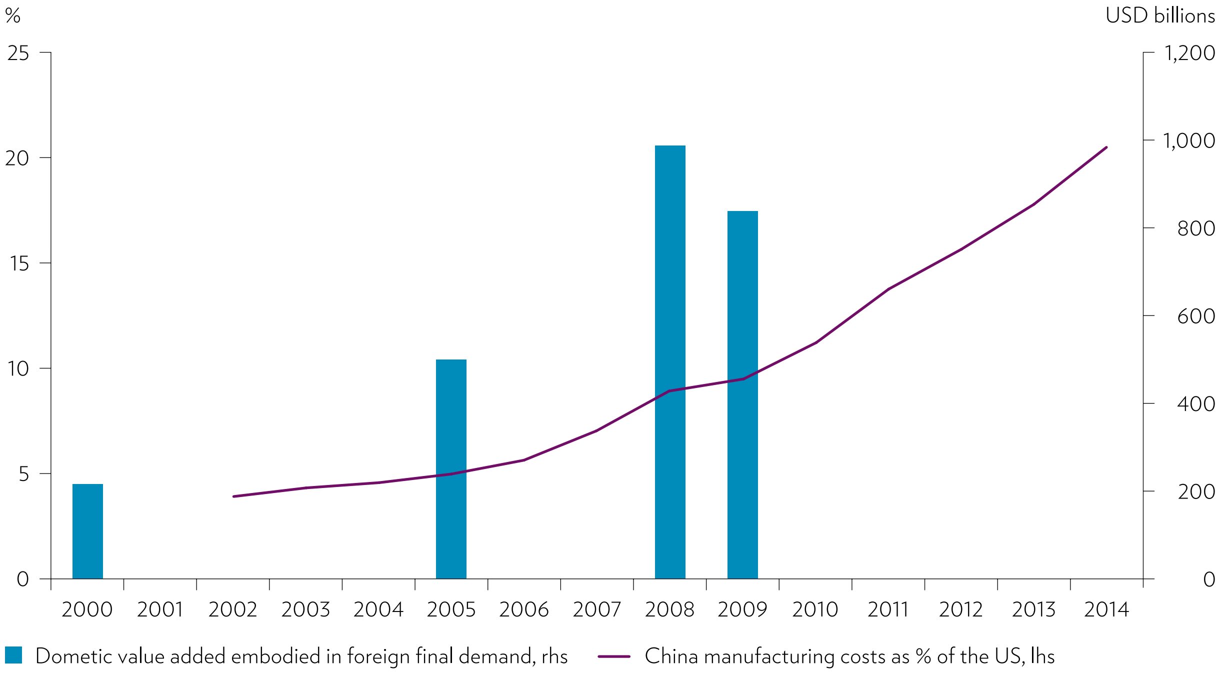
Chart 7: Infrastructure spending is rising in the place of real estate

Source: Nomura, Bank of China, Julius Baer

Is China becoming expensive?

China's critics argue that there are an increasing number of lower cost producers, and rising domestic wages will ultimately render China uncompetitive. Rising production costs in themselves do not create an economic problem so long as producers can pass on higher prices to the end customer. Perhaps more broadly, higher costs in an economy where more of the value–added of the production process is captured is a very different scenario to one where components are imported and China's contribution is limited to routine assembly before re–exporting the final product. Over the years, China has been gradually representing a greater share of the final value of its exports, based on OECD data. This process promises to accelerate given the reform agenda of the central government, whose aim is to gradually introduce more market forces into the economy, lessening the role of State Owned Enterprises.

Chart 8: China is evolving in a rising cost environment



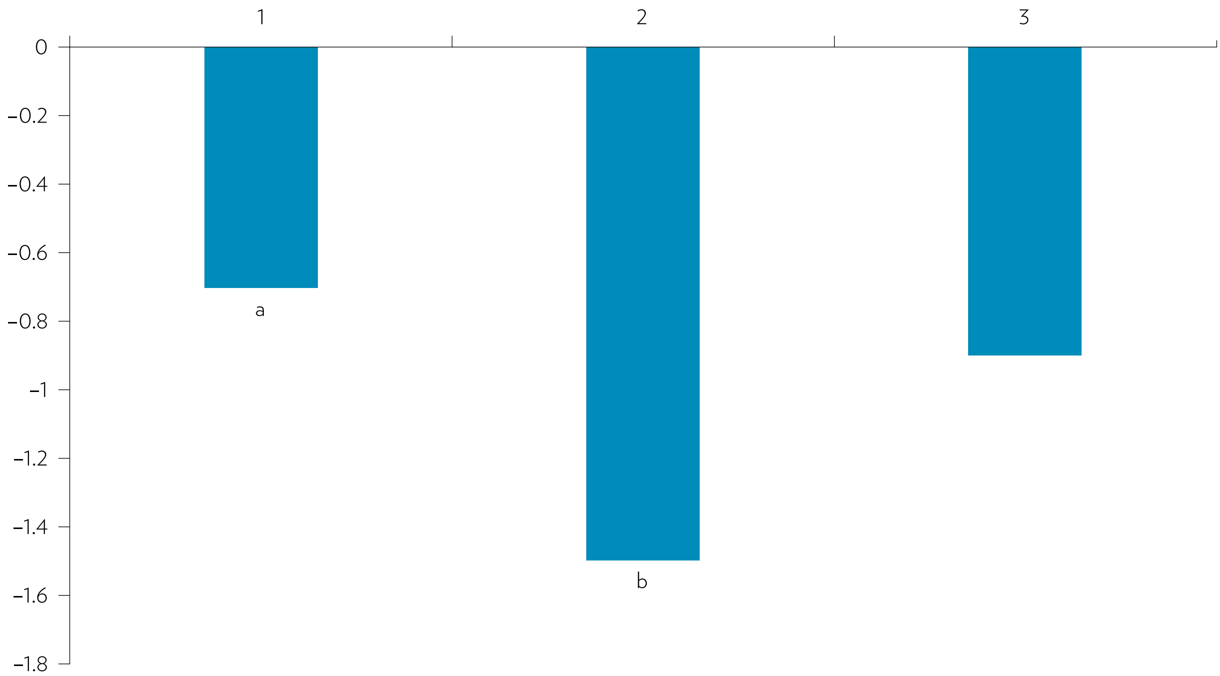
Source: Deutsche Bank, OECD StatsExtracts database, Bank of China, Julius Baer

What evidence that reform works?

What template exists for this degree of economy–wide re–tooling? To some degree, the answer may lie in Europe. As per the summer of 2014, financial markets are pricing European sovereign debt at levels last seen well before the Eurozone Crisis – which one way to declare that is well passed. Yet at the same time, unemployment levels in certain European states remain high by historical standards, and even more worryingly so, for those aged between 15 and 29.

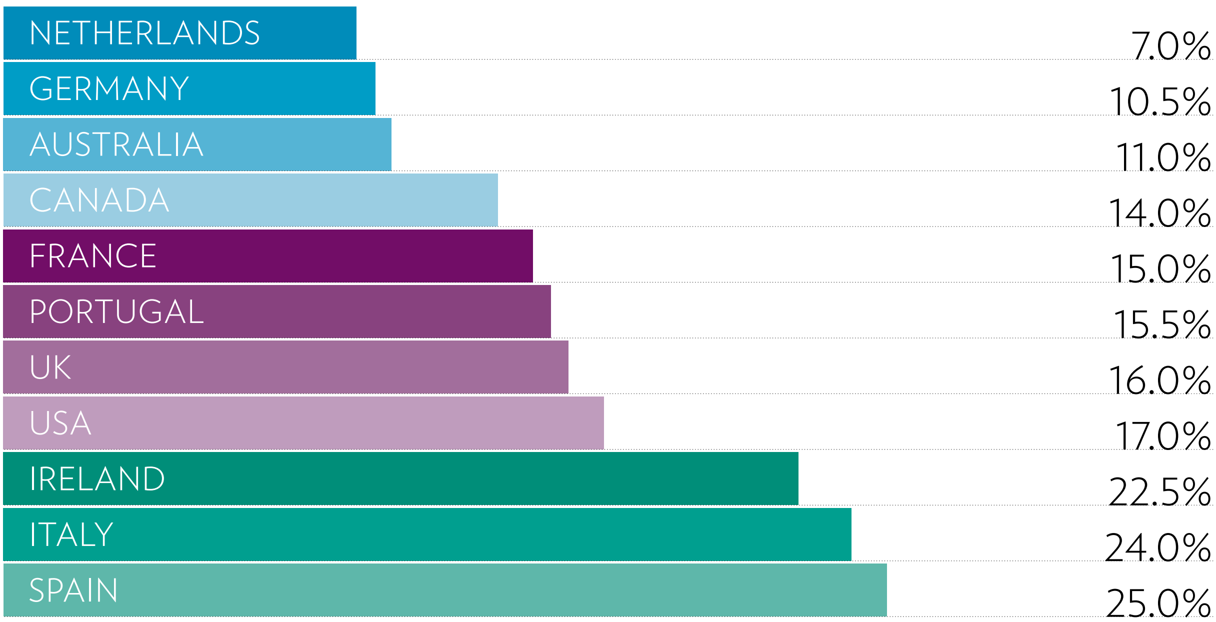
A large body of academic work argues that youth unemployment creates a 'wage scar' that results in penalty to the lifetime of earnings for those who suffer joblessness early in their working lives. Hence the effort to lower youth unemployment in Europe is not a short term, cyclical challenge that can be 'filed away' once youth unemployment falls. Rather, European governments face the prospect that a generation of individuals will face an uphill battle to restore their lifetime earning's capacity, for decades to come.

Chart 9: Change in youth unemployment, years after reforms initiated



Source: Bouies et al, OECD Working Paper March 2012, Bank of China, Julius Baer
a) simulations at the 5% statistical significance level.
b) simulations at the 1% statistical significance level.

Chart 10: Youth aged 15 to 29 who are not in education or in employment, as % of the persons in this age bracket, July 2014

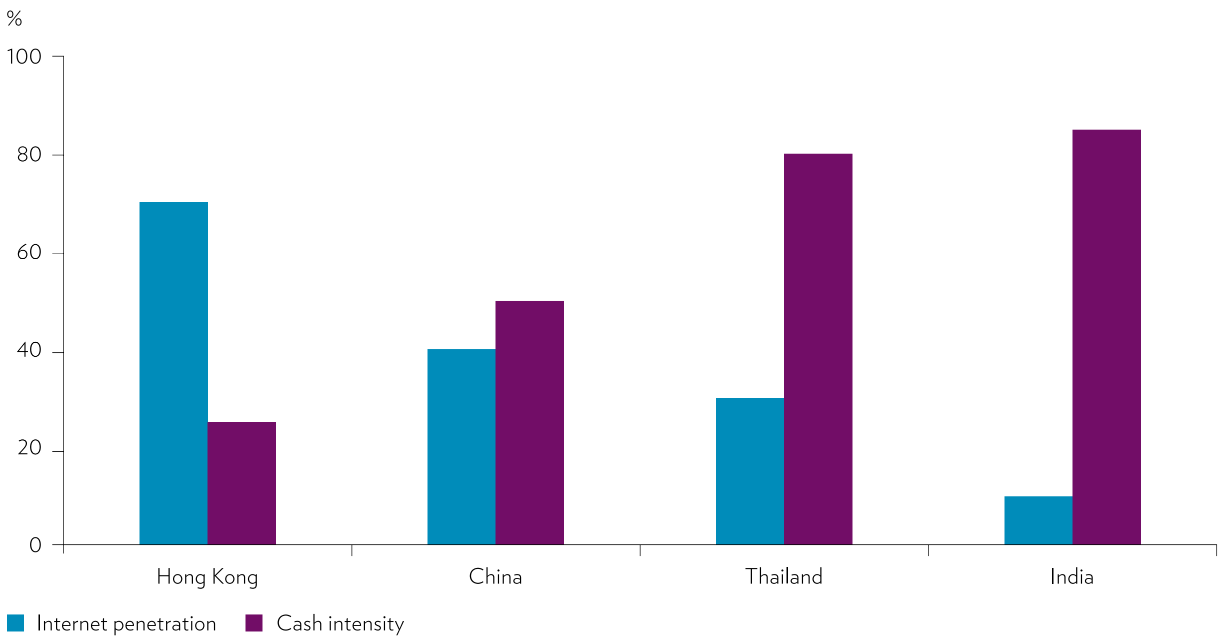


Source: International Labour Organisation, OECD, Deutsche Bank, Bank of China, Julius Baer

The good news is that there is substantial evidence that reforms which bolster the flexibility of the labour market do indeed have a meaningful impact on lowering youth unemployment, albeit with a three to five year lag. The parallel to this outcome is that in China, where we expect reforms whose aim is to increase the efficiency of SOEs, while gradual, will ultimately help reverse the slowdown in productivity. Along the way, it cannot be discounted that SOE reform will see disruptions in employment in some sectors, thereby necessitating the increased role of the private sector to step in and help absorb some of this labour. In this process, so–called 'new sectors' in China, where government efforts to liberalise and allow for new entrants, such as healthcare, retail and media will likely be expanded over time. With increasing internet penetration in China, coupled with the rollout of new technologies in the area of mobile payments and supported by infrastructure deepening, the economy will likely be unrecognisable in decade from now.

Beyond liberalising market access (allowing private firms to compete alongside incumbent SOE's), the core thrust of the SOE reform initiative is enabling mixed ownership. Across China, leading SOEs in areas such as petrochemicals, pharmaceuticals, construction, materials, banking, telecoms and energy have all announced plans to reduce state ownership. At the same time, many are unveiling plans to bolster corporate governance and/or restructure their business lines. In the short run, it is conceivable that these efforts, which will invariable lead to more efficient operations, could paradoxically be a drag on overall economic growth, firms streamlined. China has gone through previous waves of SOE restructuring and emerged stronger as a result, in our view. As long as other reform initiatives, such as the reorganising of the financial system, which we address next, proceeds in tandem, we remain confident the economy will take on new flexibility to absorb the adjustments.

Chart 11: Enormous potential for growth as new consumer technologies spread



Source: Citigroup, Bank of China, Julius Baer

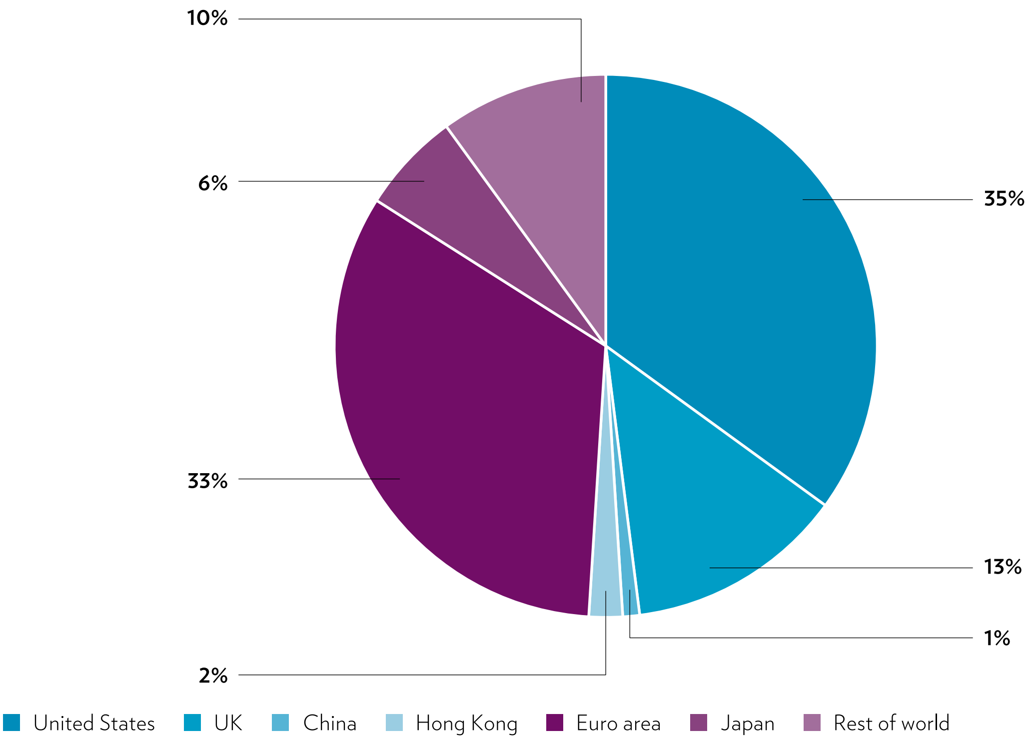
A few words on shadow banking

The experience of the US subprime crisis, where lax regulation and the lack of financial sector oversight combined with product innovation to yield a 'perfect storm' continues to echo in the minds of investors everywhere. In this context, China's shadow banking system is often viewed as the single largest risk posed to the economy. Conceptually, shadow banking is akin to 'traditional banking' in that it is the process of risk transformation, as defined by the International Monetary Fund. Deposits (safe assets) are transformed into loans (risky assets). A differentiating factor with shadow banking is that firms generally cannot create the capital buffers internally that might be needed to absorb losses, unlike regulated banks. This salient point, combined with rapid increase in size of shadow banking in China (estimates of the total size typically range from around RMB 20 to 40 trillion), keeps alive the systemic fears that non–bank financial firms in China stoke.

Shadow banking is not limited to China, however. Indeed, on global basis, Chinese shadow banking is likely to represent a small share of the total assets in this space. The authorities in China have already done a great deal to curtail the growth of the sector and bring it 'out of shadows'. For example, today, there are an estimated 70 trust companies that down from over 700 in the late 1980's, according to BCA Research. What is also evident is that the fear of widespread defaults of products from within the shadow banking system, widely expected to have taken place over the summer of 2014, has simply not materialised. In part, this is due to the monetary authorities adept market liquidity management, but also that the composition of borrowing in China appears to be moving away from the shadow system towards traditional lending.

Nevertheless, it will remain an important challenge for policy makers over the coming years as how to best integrate shadow banking into the formal, regulated financial system, with the ultimate aim being that the capital can be intermediated at market determined prices, in a timely and safe manner.

Chart 12: China's share of global shadow banking is small



Source: Financial Stability Board, Bank of China, Julius Baer

The renminbi is key

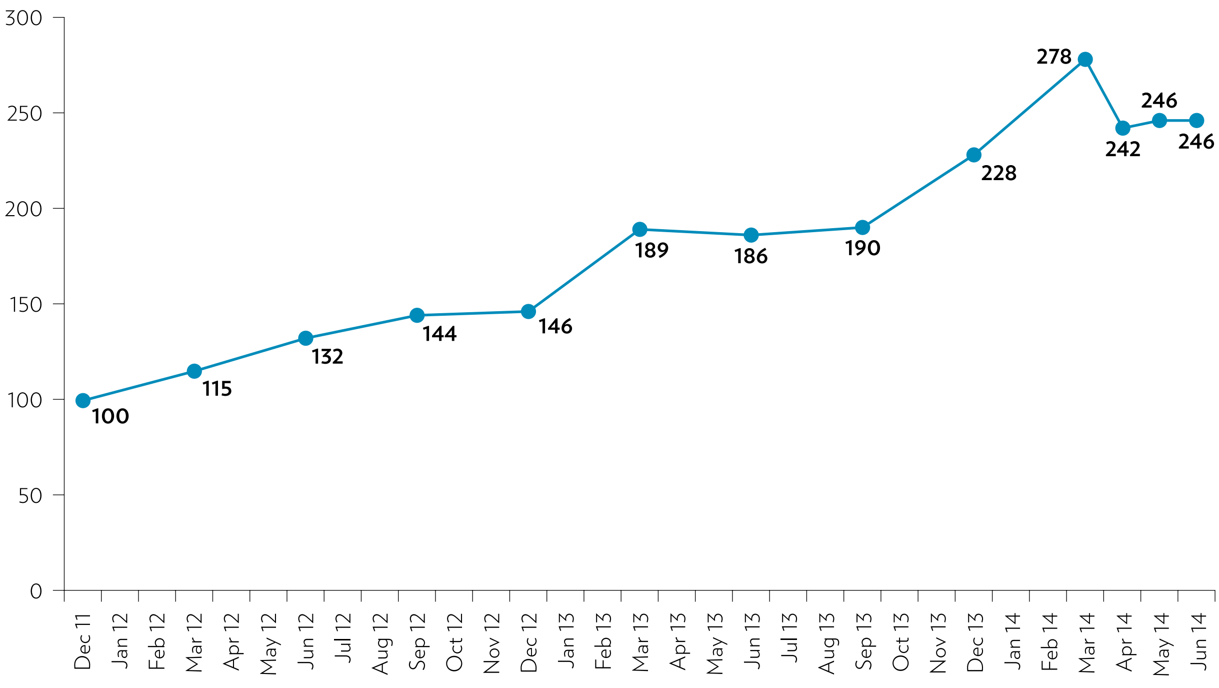
What binds all the above elements together in our view is the role of China's currency. The renminbi's ongoing internationalisation will likely culminate in both full convertibility and achieve reserve currency status in the medium term. But what does this mean for China and the initial challenge we outlined, as being one of boosting productivity?

International experience argues that financial sector openness (incorporating a floating currency) ultimately helps boost total factor productivity. As argued by the IMF staff in their own research, fewer capital account restrictions can ease the flow of new technologies into an economy. At the same time, they argue that at a certain stage of economic development, an economy is best served by having a floating currency act as a shock absorber – whereas there is also evidence to support that earlier, degrees of capital controls are useful to shield a rapidly growing country from those same shocks.

We maintain that China is today at that turning point. If we consider international experience, it is noteworthy that many European nations maintained forms of capital controls well into the 1990s, such as Sweden, France, Italy, Germany and Spain. The advent of European Monetary Union on 1 July, 1990 helped to act as a catalyst for capital account liberalisation, the IMF staff believes.

In China's case, we return to our initial topic of the challenge to boost productivity. By engaging with international market forces, not just in the area of manufactured exports, but also in capital flows, the ongoing reform agenda in China will find the desired reinforcement. To this end, the Bank of China has constructed a propriety index, which acts as an overall proxy for the pace of the renminbi's internationalisation. Monitoring a host of different flows (such Foreign Direct Investment, Overseas Direct Investment, the external usage of renminbi outside China), the Bank of China Cross–border RMB Index shows that the extent of the currency's internationalisation has effectively doubled since December 2011. At present, Hong Kong remains the nexus of external RMB usage, but this too is changing. Over time, Bank of China and Julius Baer expect to see Hong Kong remain the premier hub for the RMB, but that the currency's profile outside of Asia will increase dramatically, in advance of full convertibility.

Chart 13: BOC Cross–border RMB Index (CRI)



Source: Bank of China

PRIVATE BANKING CLIENTS IN CHINA

A unique perspective

What are the ambitions and expectations of China's high net worth individuals? How do they see their relationship with their private bank? What can be said about their attitude towards financial risk and return?

In the first survey of this kind, Julius Baer and Bank of China asked these questions and more, covering over thirty Bank of China Private Banking branches across the nation. The timing of this survey is especially apt in view of the many issues raised in the opening chapter of this report. In particular, the next phase of the internationalisation of China's economy, moving beyond the role of predominant export nation, but also in a global, financial sense, puts high net worth individual investors in an important position.

What emerges is a unique insight into who China's new wealthy are and what forms their world view, but also what role their wealth manager plays in their lives.

Private banking clients in China survey coverage

In June 2014, a ground breaking survey was conducted, fielding 200 responses from Bank of China Private Banking's client base, in the form of face–to–face interviews, lasting approximately 20 minutes for each interview. From large metropolitan centres like Beijing, Shanghai and Shenzhen to the central economic hub of Chongqing, to the western province of Qinghai, the results of the survey capture a nationwide imprint of what Bank of China Private Banking clients are thinking.

Entrepreneurs seeking wealth management advice

We start our presentation of these results with an overview of who responded to the survey. In short, the bulk of respondents are entrepreneurs, in essence being on the forefront of China's wealth creation, by taking on personal and business risk to achieve financial success. Almost all respondents are working in some form – either in their own business or otherwise. In other words, almost all do not allocate their full time to managing their wealth, but turn to their private bank for active assistance in this regard.

The average age is 45 and there appears to be an even split between men and women. Sixty percent of the respondents have been client of Bank of China Private Banking for over two years. Almost all have relationships with other banks in China, in addition to their main account with the Bank of China. Reflecting the universal product and service scope of Bank of China, clients make use of a broad range of products, ranging from credit cards to insurance to structured products. Looking forward, clients expressed an interest in alternative investments as well as investment opportunities outside China.

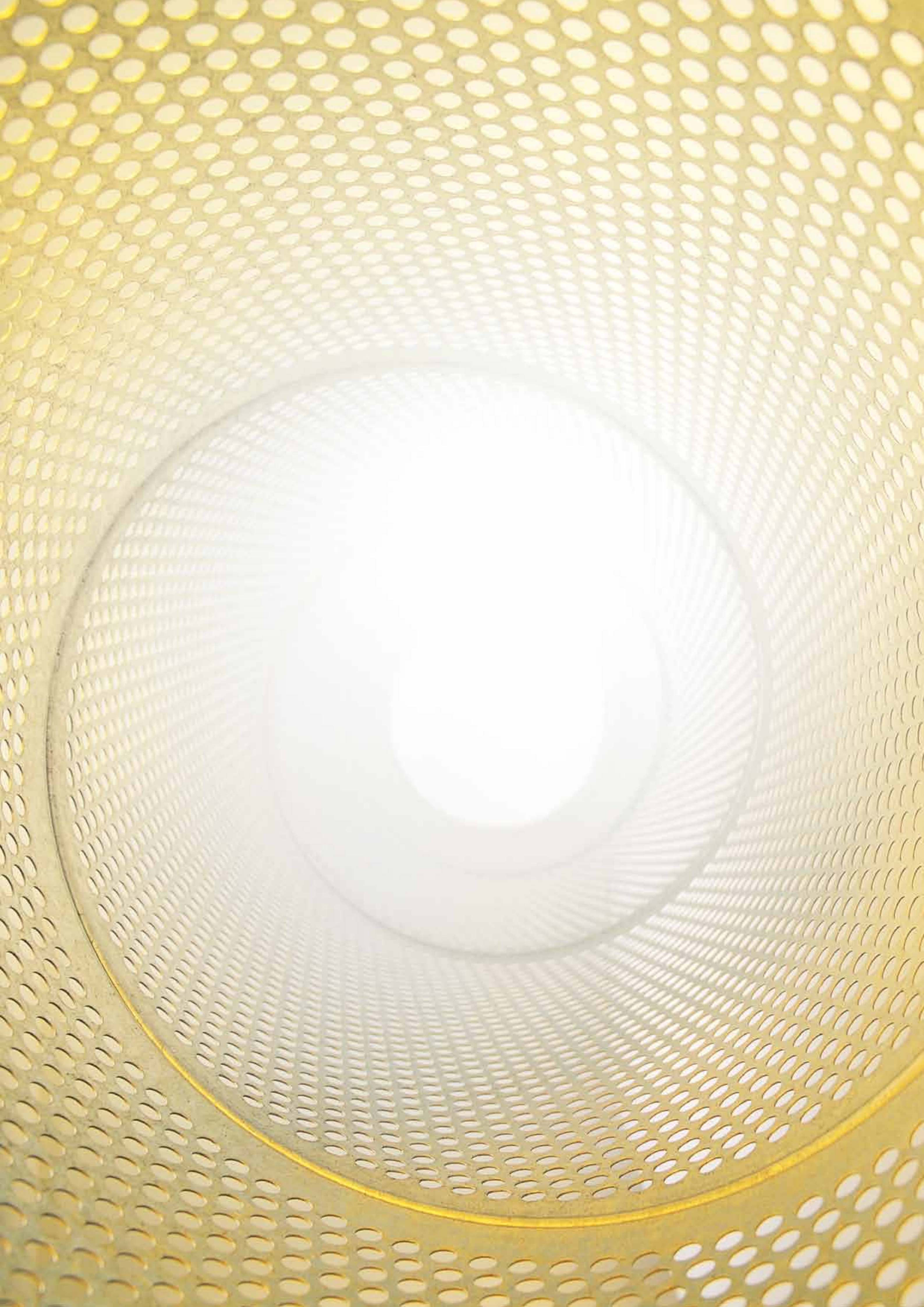
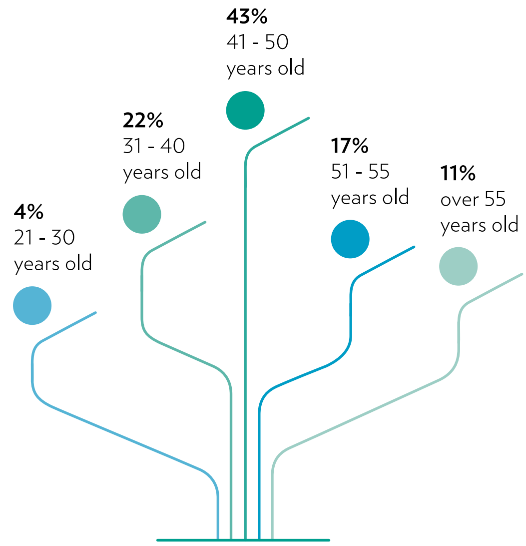
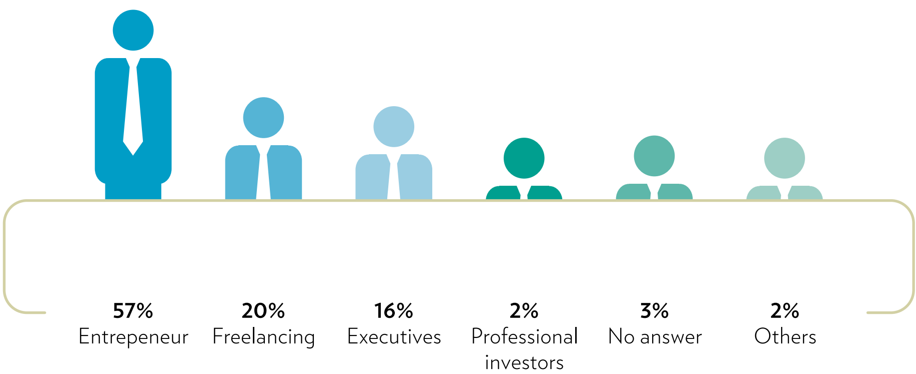


Chart 1: An overview of who responded to the survey

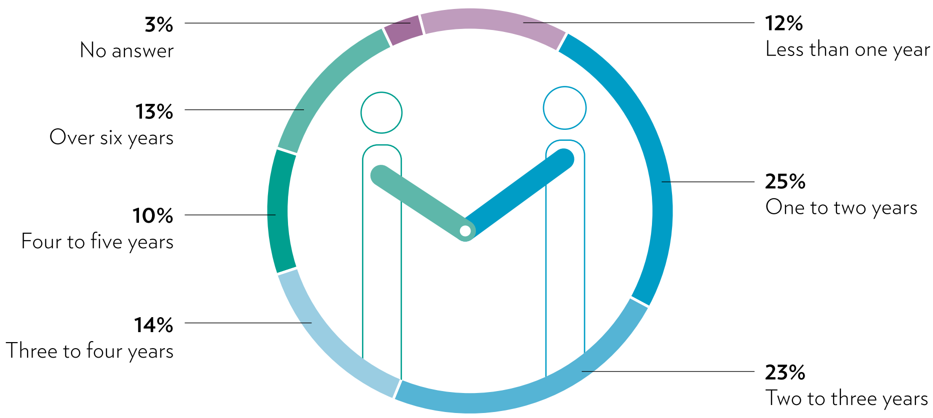
Age distribution (by %)



Working status (by %)



Time spent with Bank of China (by %)

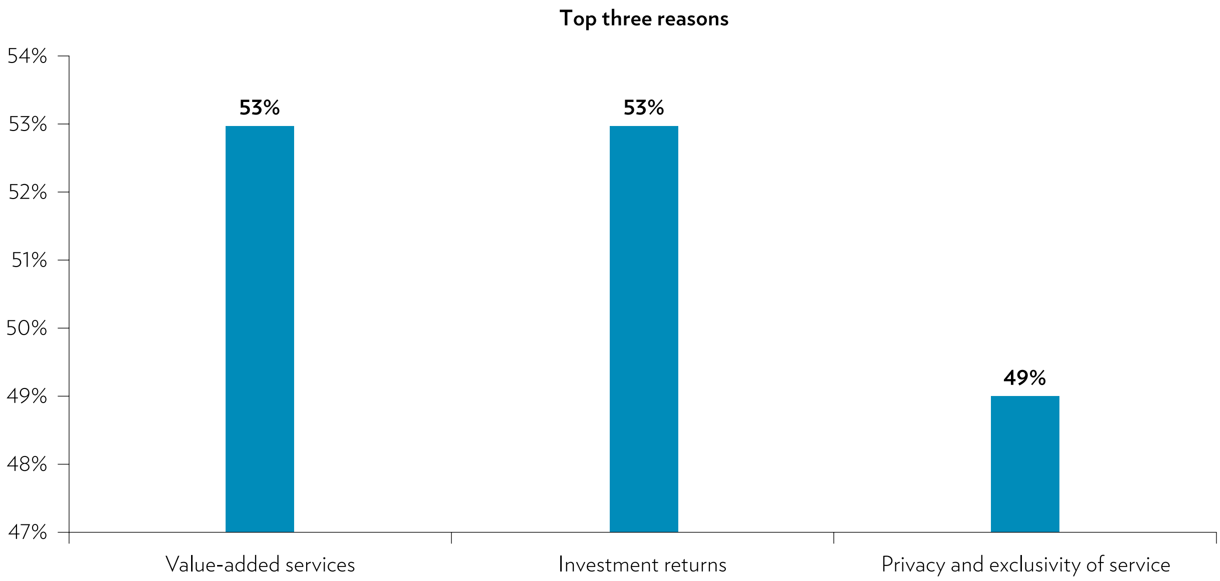


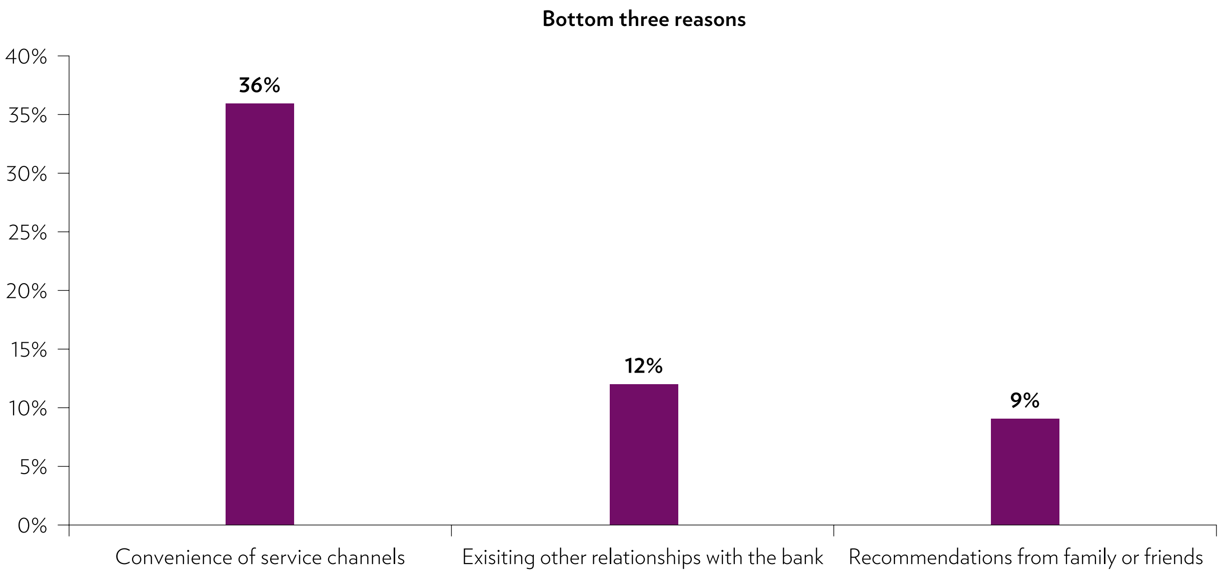
Source: Bank of China, Julius Baer

Why are you a private banking client of Bank of China?

The survey results demonstrate that a small proportion of respondents chose to be with Bank of China solely upon being referred or having an existing relationship with the bank. Rather, clients identified that Bank of China is a leader in financial products as well as a range of value–added services. Branding and the exclusivity of the services rendered ranked third. What we read from these results is that clients seek to find out for themselves whether the products and services are suitable and are therefore likely to evaluate several banks before choosing their primary private banking relationship.

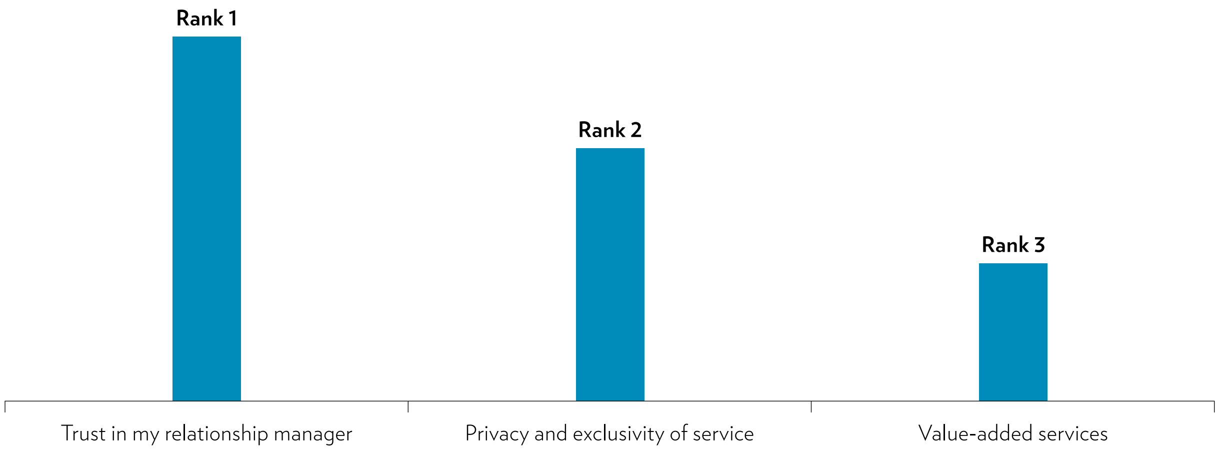
Chart 2: What do you look for when selecting your Private Bank?





Source: Bank of China, Julius Baer

Chart 3: Why have you chosen Bank of China Private Banking?



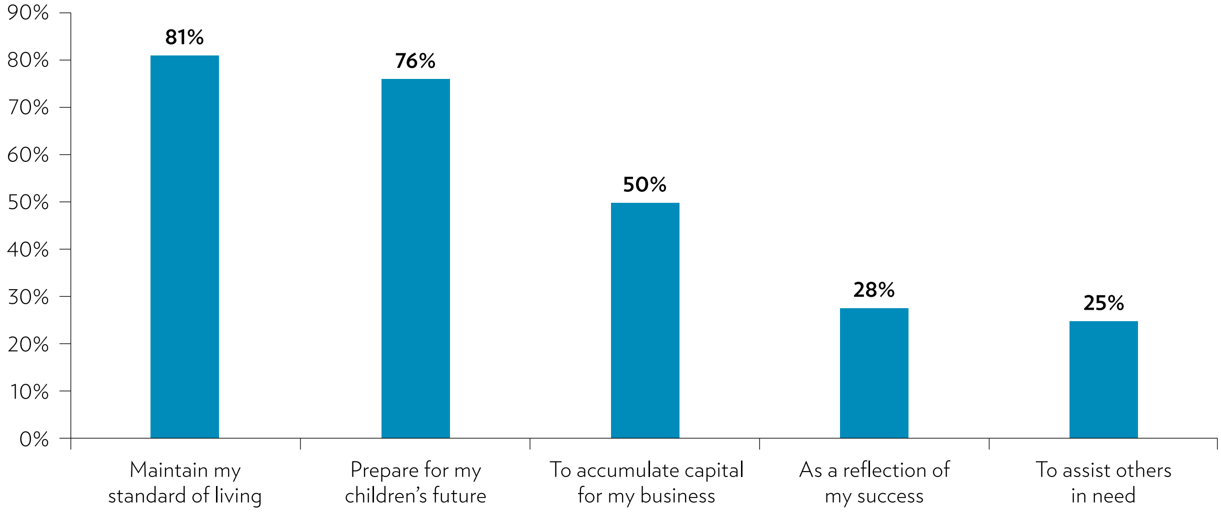
Source: Bank of China, Julius Baer

This points to a competitive landscape within China's private banking market. That said, once the relationship is formed, Bank of China Private Banking clients look overwhelmingly to their relationship manager to deliver investment advice. Indeed, when asked what are the most desirable attributes of the relationship manager, respondents pointed to financial product knowledge as being the most significant.

What do you expect from your relationship manager?

The picture that is formed is that Bank of China Private Banking clients see the primary function of the relationship managers as being an expert in investing, whereas matters related to wealth planning, education, philanthropy or otherwise are deemed less critical. That said, trust is the key characteristic of the relationship. Expectations in terms of assisting with problem–solving and analysis as connected with investing are very high. At the same time, however, it appears that clients look at investments on a stand–alone, absolute return basis more often than in a portfolio context. Bank of China Private Banking clients' overwhelmingly see the investment advice as delivered by the relationship manager serves the purpose of maintaining a high standard of living. A very close second are financial returns to pay education of their children and a distant third are securing income to support the development of their businesses.

Chart 4: What do you seek to achieve with your investment returns?

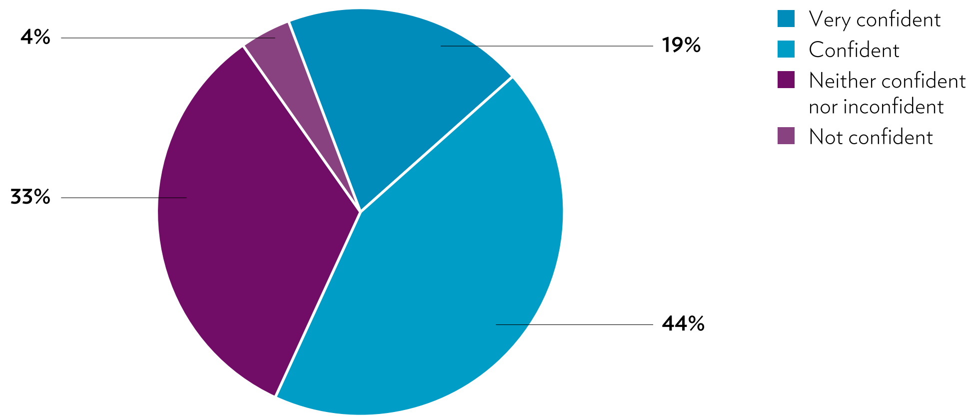


Source: Bank of China, Julius Baer

Clients are confident investors

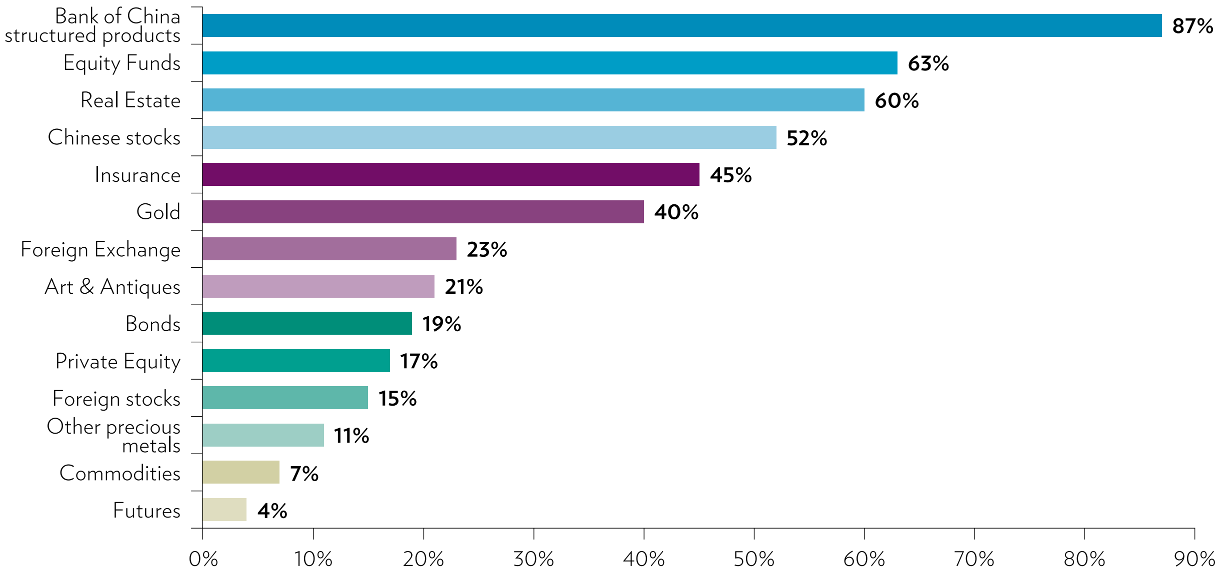
Bank of China Private Banking clients are generally confident that their investment objectives will be met. In terms of the assets that are selected, structured products, funds and real estate form the three most popular vehicles. Equities outside China rank towards the bottom, alongside commodities, private equity and futures. At the same time, clients seem to have a penchant for foreign exchange trading and domestic stocks. The most popular structured products feature capital protection with a fixed return. In terms of the coming twelve months, respondents reaffirmed their interest in structured products, but indicated less interest in property.

Chart 5: Clients' confidence in achieving investment returns



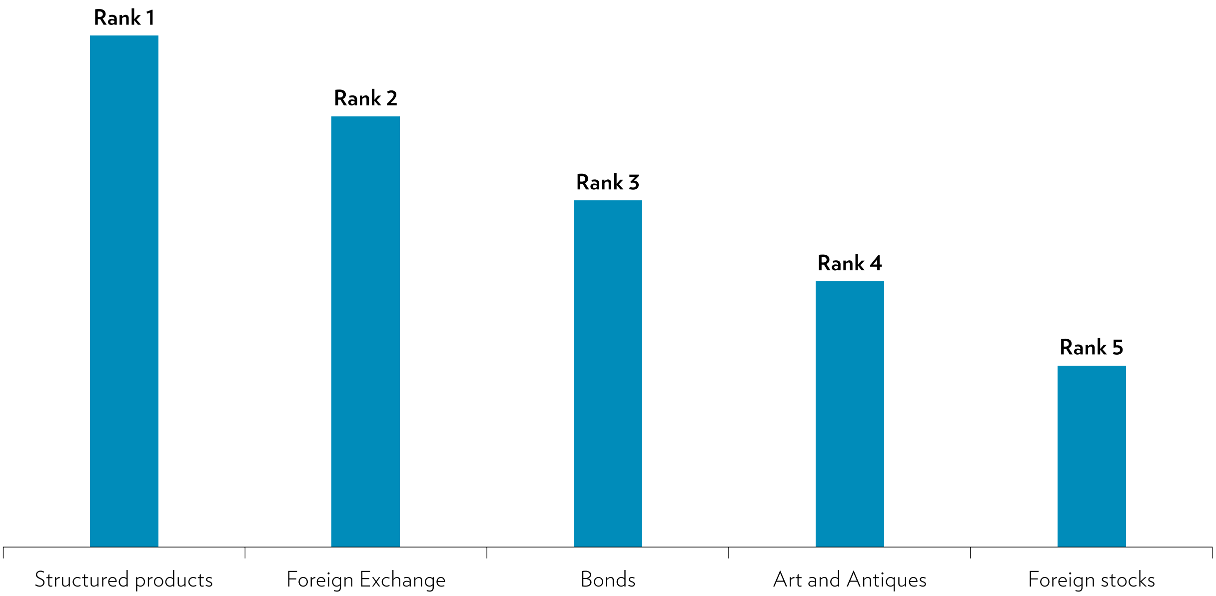
Source: Bank of China, Julius Baer

Chart 6: What investments are favoured



Source: Bank of China, Julius Baer

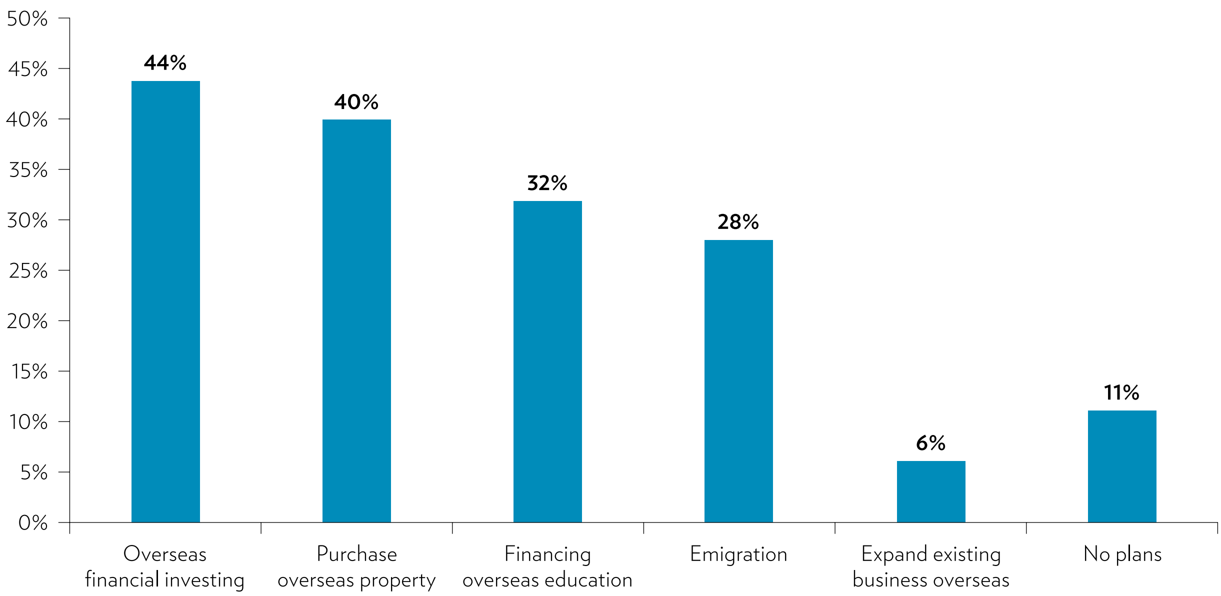
Chart 7: What investments to consider in the coming 12 months



Source: Bank of China, Julius Baer

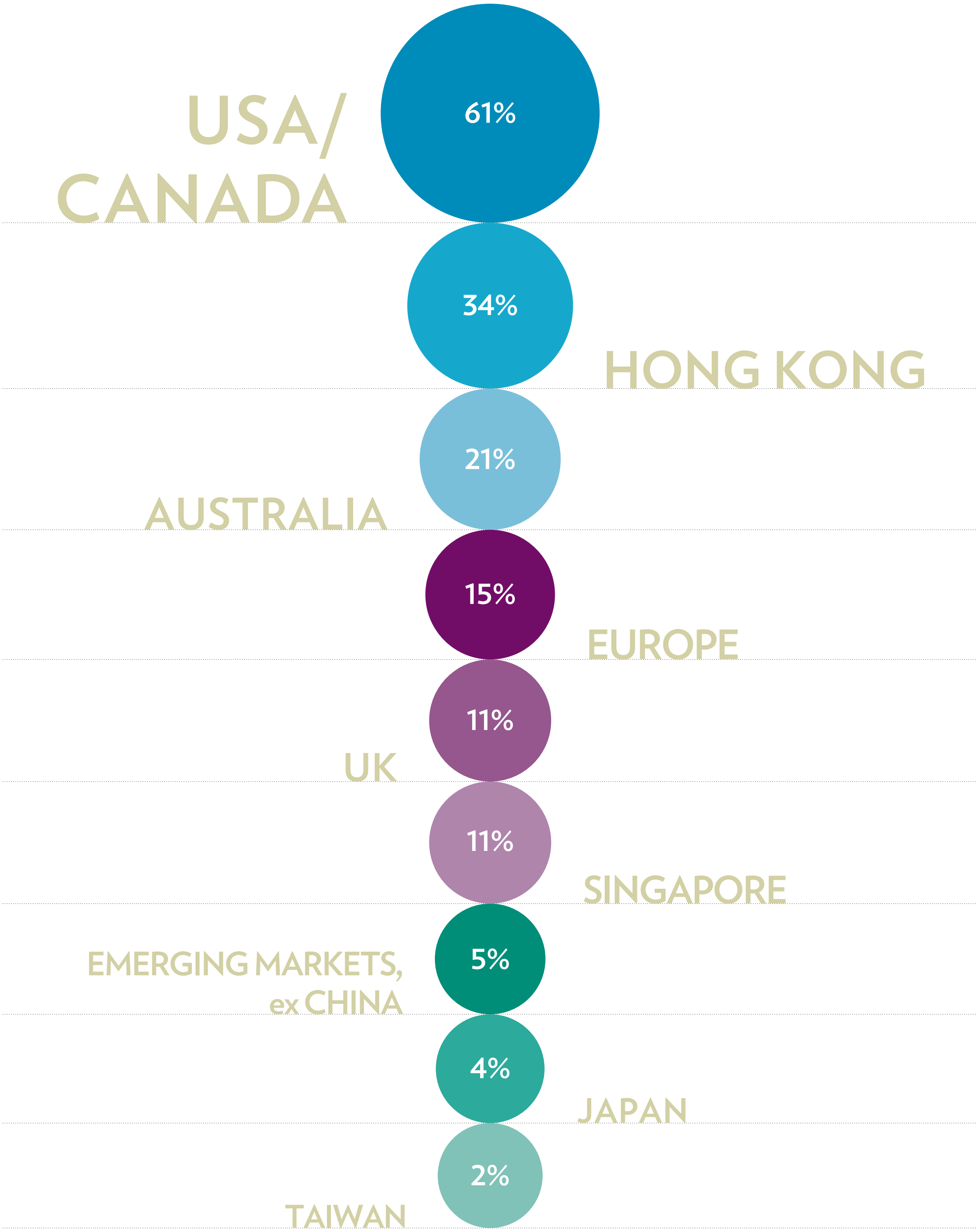
They also indicated a greater interest in foreign exchange and some further reservation regarding local stocks. In terms of cross–border investing, 44% of survey respondents expressed an interest, with close to similar intent to buy real estate outside China over the coming year. In terms of investment destination, Bank of China Private Banking clients overwhelmingly expressed interest in the United States, followed by Hong Kong, Australia and Europe. As per June 2014, respondents saw long term value in gold as a safe haven asset, but had limited expectations of appreciation in the shorter term. By the same token, real estate remains a preferred long term investment, alongside art and antiques.

Chart 8: Cross border interests over the next 12 months



Source: Bank of China, Julius Baer

Chart 9: Which are the most promising financial investment destinations, on a 12 month view?



Source: Bank of China, Julius Baer

THE JULIUS BAER LIFESTYLE INDEX

Luxury living in Asia

The first Julius Wealth Report on Asia in 2011 introduced the Julius Baer Lifestyle Index, comprised of eighty data points, covering Hong Kong, Shanghai, Mumbai and Singapore – each city with twenty prices. Our intention was to construct a basket of goods and services that closely reflects the lives of High Net Worth Individuals in Asia. With some exceptions, all of the prices that build the index have both local and international supply and demand drivers. An outlier in this case is, for example, legal fees. If you live in a particular jurisdiction and need the services of a lawyer who is licensed to practice where you live, the international supply and demand for legal services has little to no impact on the cost.

This is a feature of the non–tradable sector of any economy, and the logic applies to many day–to–day items such as hair dressing or what you might pay someone to walk the family pet dog. However the standard, distinct lines that are normally drawn between non–tradable and tradable have become less clear as High Net Worth Individuals have greater choice where in the world to consume non–tradables. In other words, a High Net Worth Individual living in Hong Kong may choose to travel to Taipei to take advantage of high end (and lower cost) healthcare options. In essence, the Julius Baer Lifestyle Index forms the starting point for our broader analysis on how living in luxury in Asia is changing, prompting further inquiry, analysis and thought.

The rising cost of education is persistent

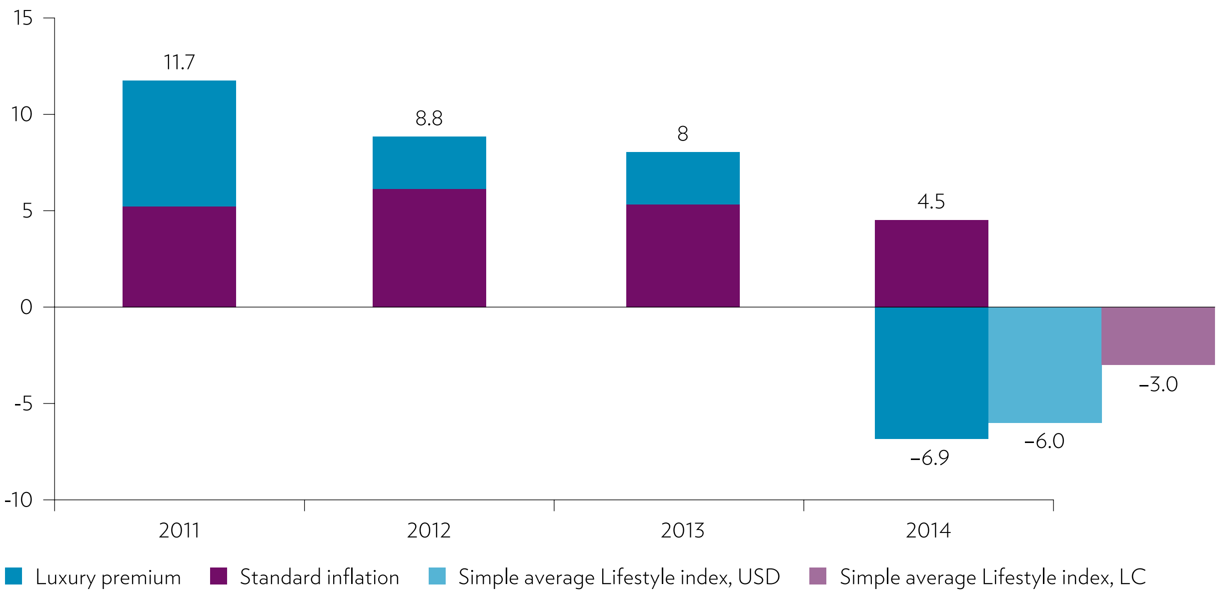
For this reason, in the 2013 Wealth Report we featured interviews with Asia's leading cosmetic dermatologists, as well as a wine expert, so as to shed further light on the trends that they are witnessing in Asia. For the same reason, in this year's report we have isolated the specific topic of higher education, as once again, the top universities are commanding double digit increases in tuition fees (this year, a 22% increase). Being an integral part of family life, preparing for (financially and otherwise) one's children's future is perhaps the single most important challenge facing High Net Worth Individuals on a longer term horizon.

In 2013, we broadened the number of cities from four to eleven, and began collecting pricing data in order to make the Julius Baer Lifestyle Index an appropriately pan–Asian barometer. In 2014, we now have two sets of 220 data points (double that number, taking into account US dollar and local currency variants), for which to compare the changes between 2013 and 2014. Interestingly, 2014 also marks the first year that the Julius Baer Lifestyle Index is negative in USD terms. Living in luxury in Asia is less expensive this year than in 2013!

The original index and beyond

For the sake of continuity, first we present the original index form (four cities). Standard inflation averaged 4.5% across Hong Kong, Singapore, Mumbai and Shanghai during our period of data collection. The Julius Baer Lifestyle Index for these four cities dropped by 6.9% over the period, in US dollar terms. In average local currencies, the index fell only 3.9%.

Chart 1: Julius Baer Lifestyle Index, USD terms, in Hong Kong, Singapore, Shanghai and Mumbai



Source: CLSA, Julius Baer

What has been the driver behind this outcome? First, property prices are 30% of the index weight. Luxury residential property prices fell in Mumbai and Hong Kong, but were broadly stable in Singapore and Shanghai. Mumbai saw significant declines in both US dollar and rupee terms. On average, applying equal weights for all twenty items (thereby neutralising the high impact of property prices) across the four cities, the index would be down −3% in local currency terms, and −6% in US dollars. Here too, significant price swings in Mumbai skew the outcome lower: based on Hong Kong, Singapore and Shanghai alone, the simple average change in local currencies would essentially be flat, year–on–year.

Chart 3: Julius Baer Lifestyle Index – cost change (in %, 2014 vs 2013 cost), in local currency terms

	Business-class flights	Residential property	Wedding banquet	Hotel suite	Tooth implant	Hospital	Golf club membership	Lawyer	Watch
Hong Kong	–15%	–14%	3%	10%	2%	–29%	0%	43%	–5%
Singapore	–9%	–1%	14%	–10%	–14%	3%	–29%	–35%	0%
Shanghai	–19%	0%	1%	–31%	8%	0%	0%	–50%	9%
Mumbai	–11%	–17%	–32%	–13%	–16%	25%	–35%	0%	9%
Taipei	–23%	–13%	5%	–10%	13%	12%	0%	0%	0%
Jakarta	–42%	24%	26%	–6%	26%	4%	–22%	24%	21%
Manila	4%	0%	–13%	19%	0%	15%	6%	–4%	–9%
Seoul	–28%	22%	8%	19%	–1%	–19%	–21%	–5%	5%
Kuala Lumpur	–25%	0%	–19%	16%	9%	29%	1%	12%	0%
Bangkok	–17%	0%	–4%	–12%	–17%	11%	–19%	–13%	8%
Tokyo	–33%	11%	9%	16%	0%	3%	–5%	–49%	0%

Source: Bank of China, Julius Baer

A heatmap of changes

This year, the four city index is sharply determined by outliers, with large swings across categories. Luxury hotel suites are significantly cheaper in Shanghai this year, but are 10% more expensive in Hong Kong. The cost of a Lafite Rothschild 2000 has dropped significantly in all four cities, such as –28% in Hong Kong. Wedding banquets dropped 32% in Mumbai, but are 14% more expensive in Singapore. The scale of the variability becomes even more clear when we expand beyond the original four cities and consider also Taipei, Jakarta, Manila, Seoul, Kuala Lumpur, Bangkok and Tokyo. This is perhaps best illustrated via a heatmap, looking at local currency changes from 2013 to 2014.

Ladies' handbag	Wine	Jewellery	Men's suit	Facial aesthetics (Botox)	Piano	Car	Cigar	Ladies' shoes	Boarding School	University
-5%	-28%	-16%	-12%	0%	8%	0%	5%	2%	8%	22%
0%	-16%	-20%	-8%	0%	1%	13%	12%	0%	12%	26%
9%	-22%	-16%	28%	0%	1%	-4%	1%	7%	7%	21%
10%	-7%	-17%	-34%	-1%	3%	-9%	0%	15%	20%	35%
0%	-5%	-1%	-20%	-17%	0%	20%	-13%	10%	13%	27%
27%	19%	-38%	35%	14%	19%	7%	5%	10%	27%	43%
-9%	-2%	5%	9%	0%	-4%	6%	4%	15%	18%	33%
5%	0%	8%	23%	-12%	-23%	20%	0%	5%	8%	22%
0%	0%	-50%	2%	-11%	6%	-9%	11%	13%	16%	30%
8%	-19%	5%	4%	6%	9%	0%	0%	2%	15%	29%
0%	0%	-2%	-35%	3%	13%	0%	18%	11%	28%	44%

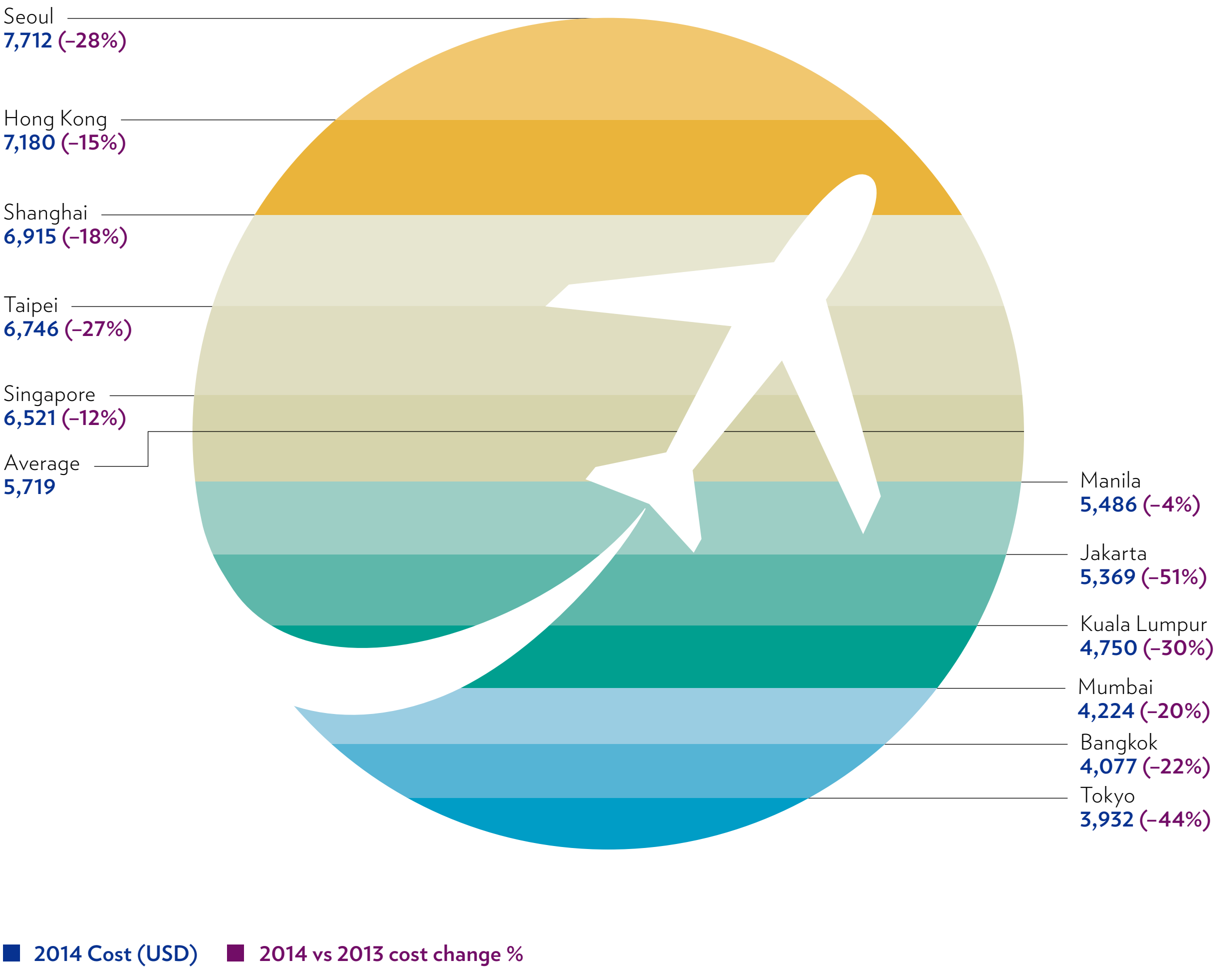
The full 11 city Lifestyle Index

Taking the full data set from the expanded, eleven cities and using the original weights (property carries 30%, luxury vehicle 10% and remaining 18 items equally splitting the difference), the enhanced Julius Baer Lifestyle Index fell by 5.3% in US dollar terms in 2014, but rose 1.1% in local currency terms. Five of the eleven cities registered average price increases in their local currencies – including, quite prominently, Tokyo. This is especially noteworthy given the backdrop of 'Abenomics', whose signature policy is the enablement of Japan to move from a deflationary mindset to an inflationary one. In the following pages, we highlight a selection of items that have garnered most interest among readers in the past.

Flying high

In our index, we match each city in Asia with round trip, full fare business class travel to London and New York, taking the average. This covers five separate airlines with global networks, in some cases requiring stopovers. Within the index, the fluctuations of these prices from year to year are relatively high – and this was the case as well last year. The average price across Asia was approximately USD 5,700. The largest US dollars declines in prices were registered in flights originating from Jakarta and Tokyo.

Chart 4: Business–class flights

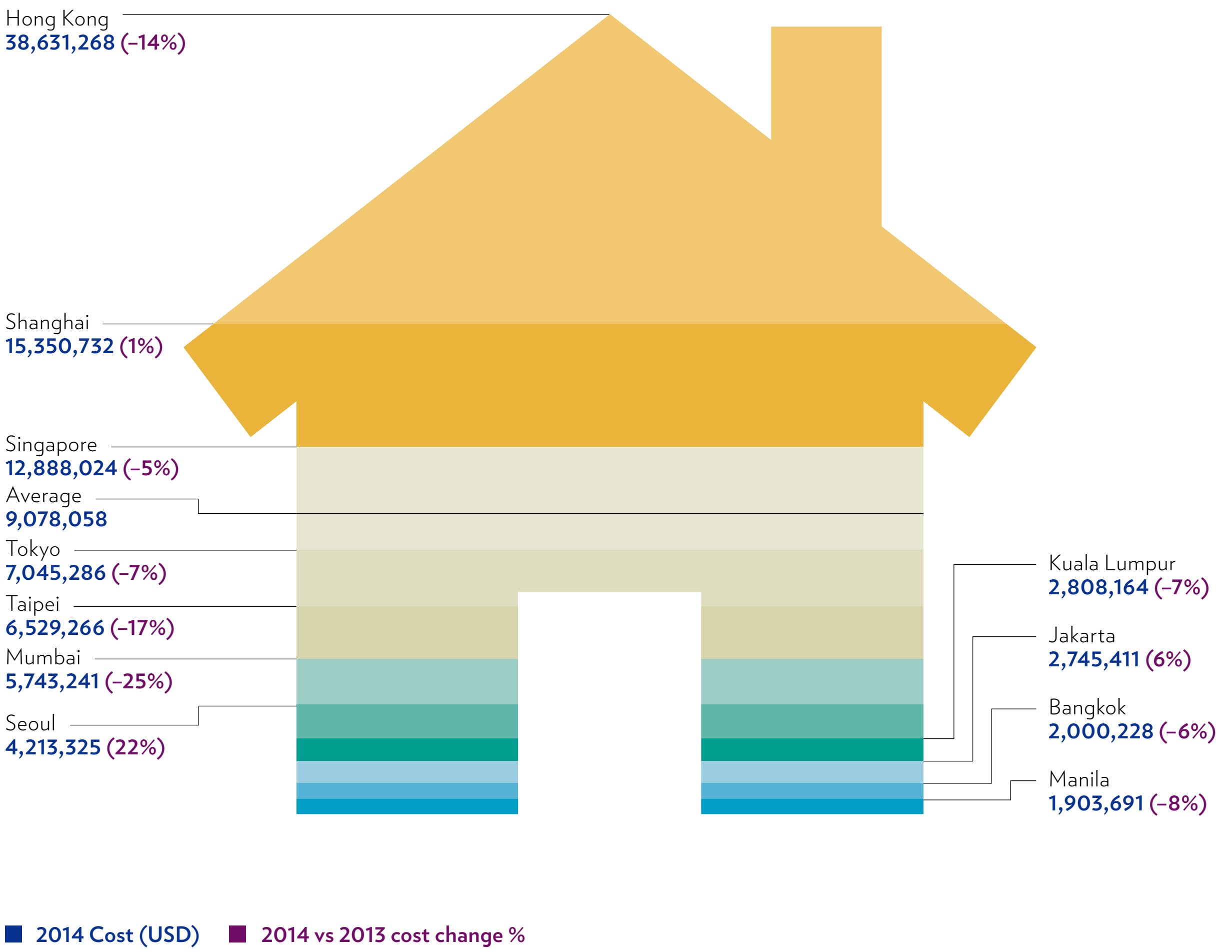


Source: Bank of China, Julius Baer

Hot property

Luxury property prices fell in three of the 11 cities, in local currency terms this year, whereas Jakarta, Seoul and Tokyo registered double digit increases. The most expensive property remains in Hong Kong, with prices leagues above the rest. 2014 has been a year that, at least for the first sixth months, investors around the world over were focused on the extent of the property correction in China. What we have seen is that quality, luxury property in Shanghai, for example, has held its value. And what is indeed very noticeable is the increase in Japan, which had become known for a largely stable property market ever since the early 1990's. On the downside, Mumbai property declined more than Hong Kong, falling even further given the weakness of the rupee in US dollar terms. All in all, we see important shifts within Asia, including the return of previously famous real estate market, in the case of Japan.

Chart 5: Residential property

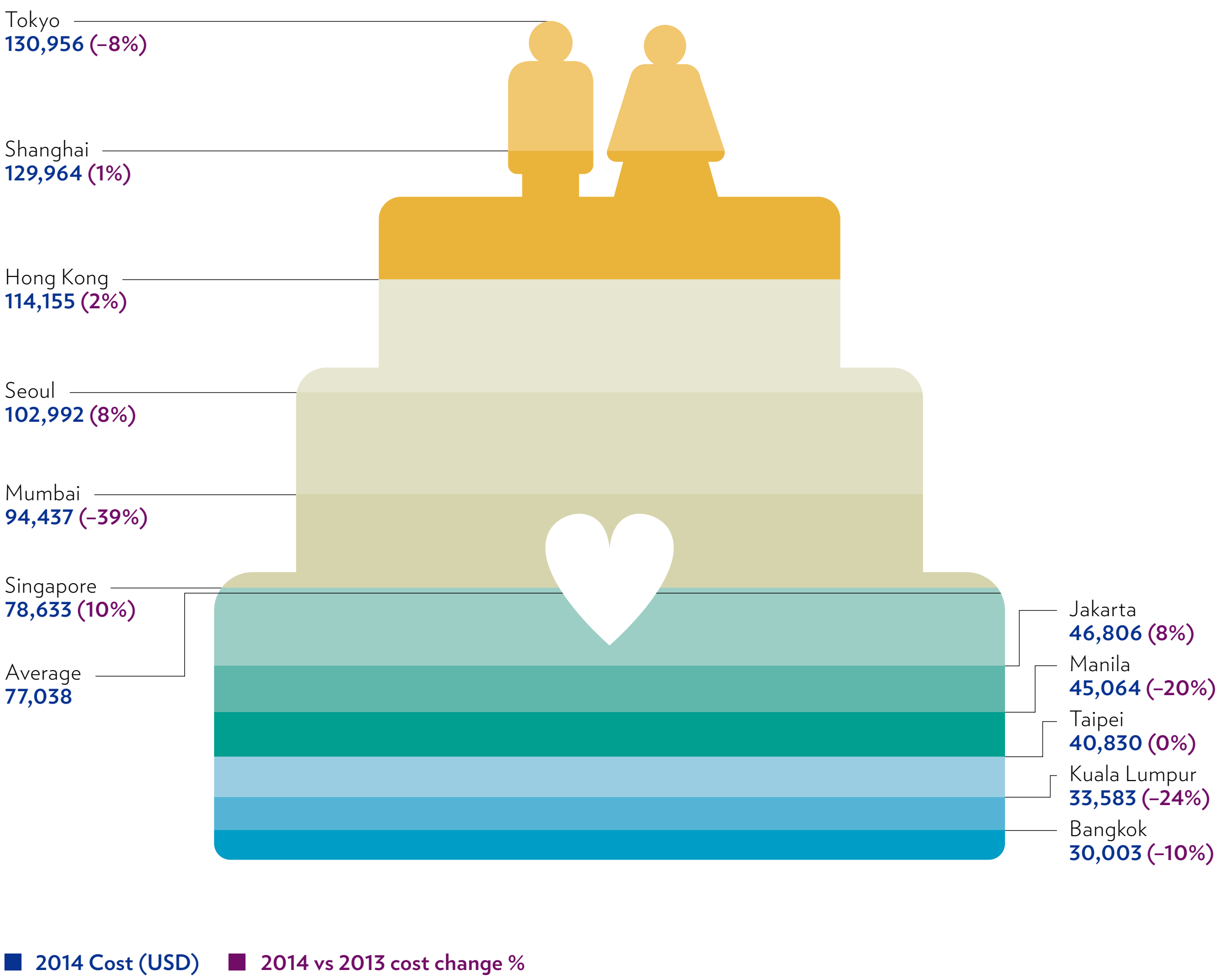


Source: Bank of China, Julius Baer

Wedded Bliss

Even with the weakening of the Japanese yen, Tokyo is the most expensive city in our index to host a 250 person wedding banquet at a top hotel. Indeed, sticking with comparable hotel brands across Asia, our Tokyo hotel seats 250 persons for the banquet, whereas in the rest of Asia, the same high end facilities have double the capacity. Weddings are becoming more expensive in most of the cities under coverage, which has been the case since we started the original index in 2011. That said, wedding are subject to fashion and trends and we cannot rule out that simpler, more intimate celebrations may become more prevalent in the future. For now, the large luxury hotels in Asia can command higher prices in most cities as marrying couples seek to create a splash on their special day.

Chart 6: Wedding banquet

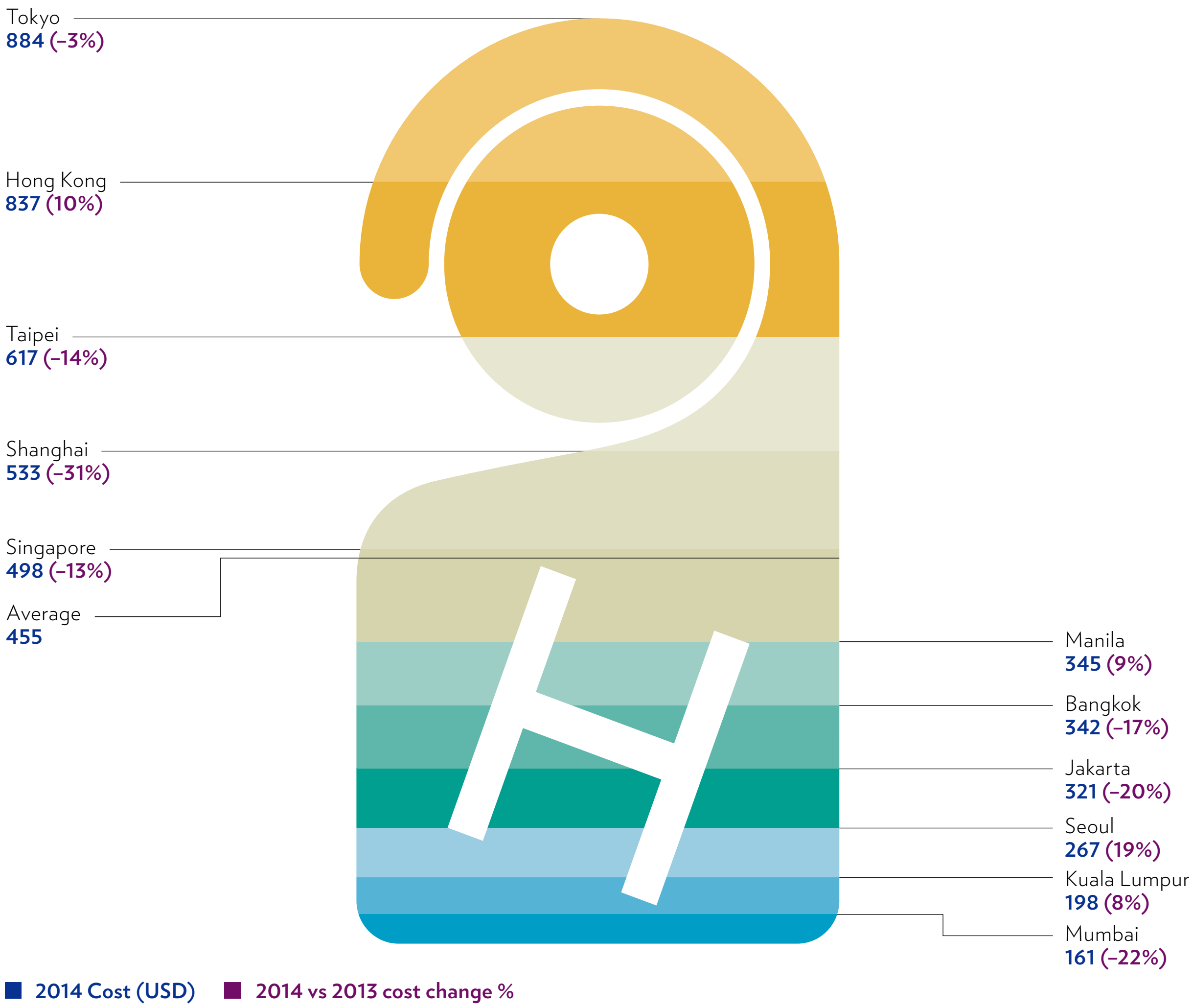


Source: Bank of China, Julius Baer

Hotels: no reservations

Echoing the outcome for wedding banquets, Tokyo features the most expensive executive suite at a leading five star hotel chain in Asia. Accounting for the movement in the yen, the same suite is only 3% cheaper in USD terms this year. Hong Kong comes in a close second, at USD 837 per night. International luxury travel in Asia is expected to become more diverse, as our consumer research partners Ipsos see the market for boutique, more intimate hotels offerings compete head to head for high net worth individual travelers. Whereas established luxury brands have obvious amenities that appeal to business travelers, upscale smaller hotels that offer a bespoke experience (and charge a premium for that service) will likely compete head on with those brands in the future.

Chart 7: Hotel suite

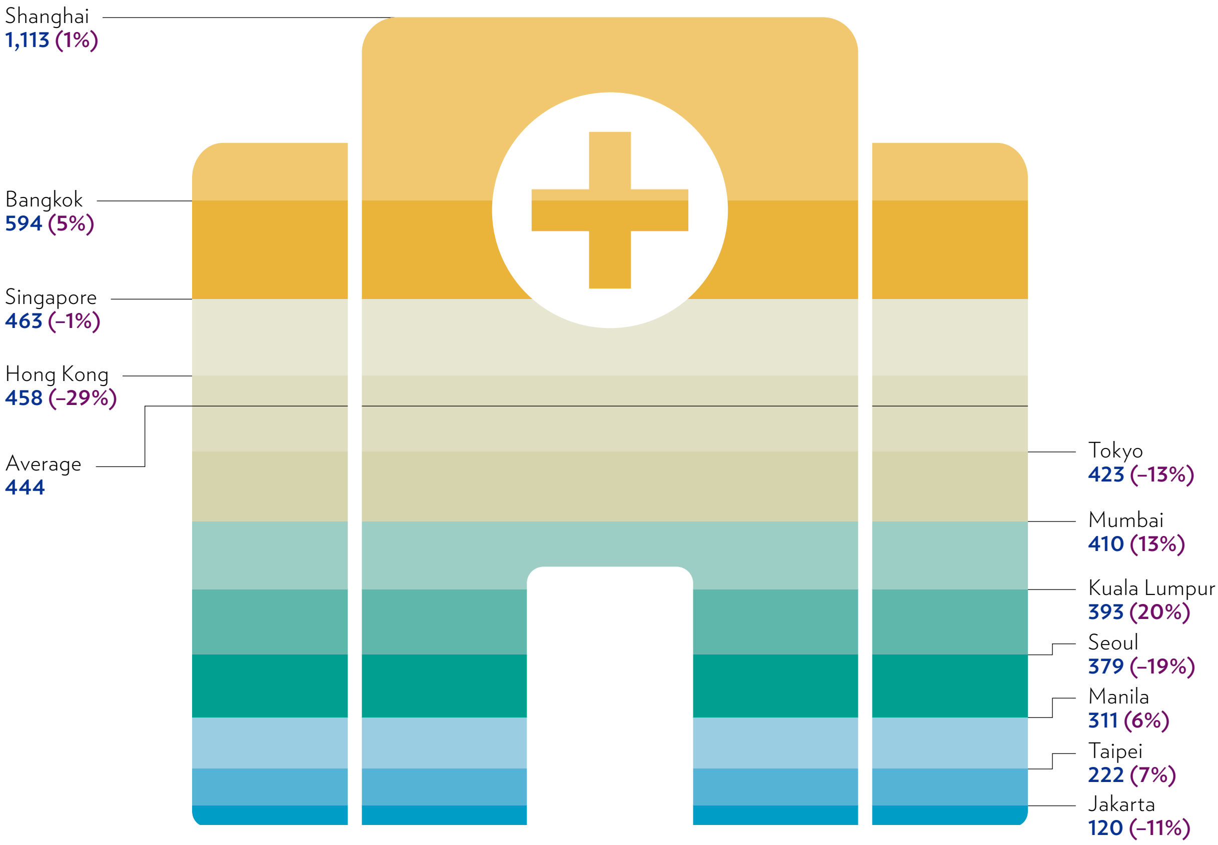


Source: Bank of China, Julius Baer

High-end healthcare

The notion that high net worth individuals would travel from their home countries to access the best healthcare available anywhere in the world is not a new trend. What is perhaps surprising is how quickly the price of a hospital stay in a renowned Asian destination for such services, namely Bangkok, now ranks number two after Shanghai. Admittedly, in our index we measure a very basic treatment (one night stay for a high fever, but in the most luxurious accommodation possible) and this overlooks the complexity of what healthcare provision entails. With Asia's demographic profile changing, the demand for high end healthcare can only increase in the years ahead, posing both opportunities and challenges for established healthcare centres like Bangkok.

Chart 8: Hospital



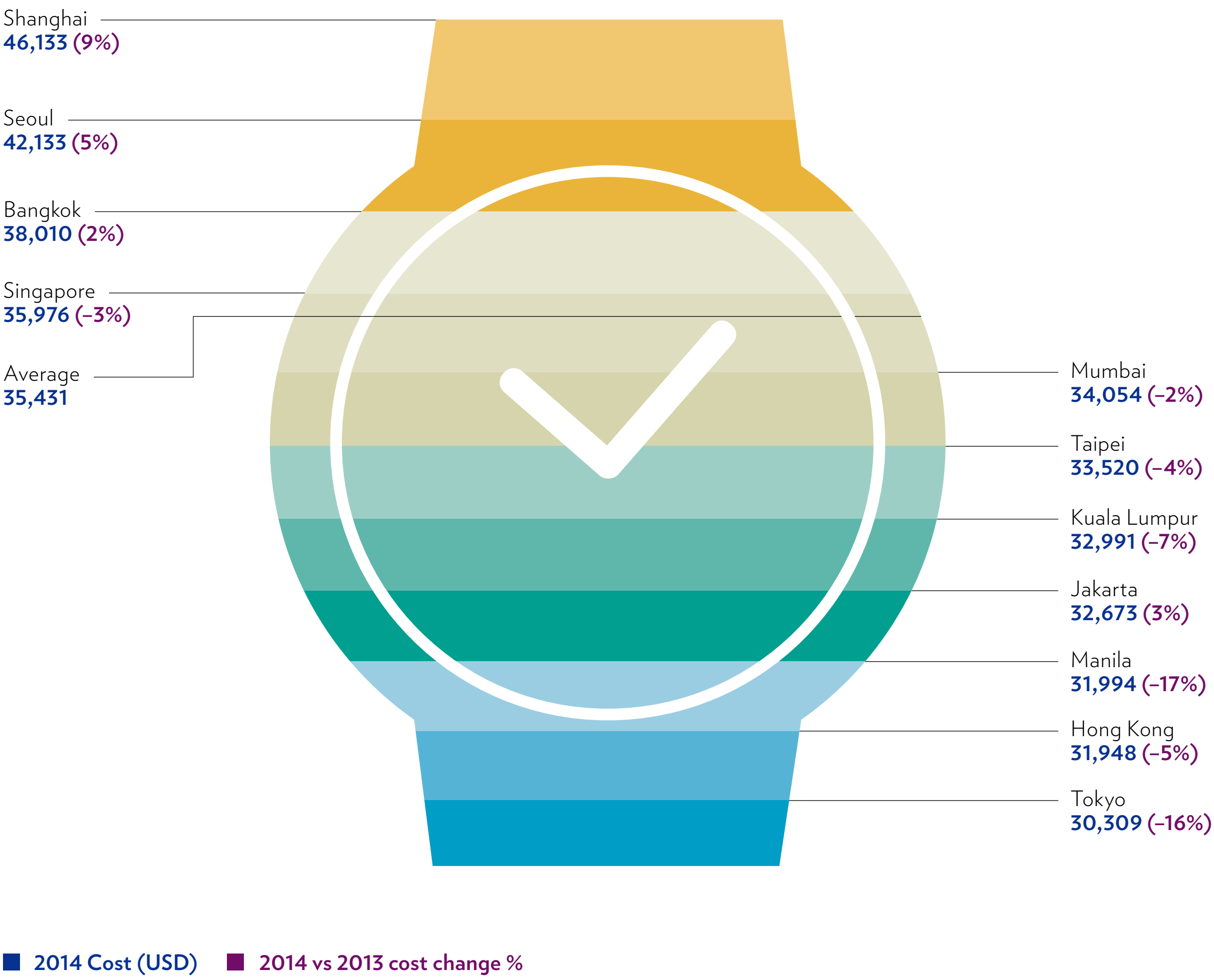
■ 2014 Cost (USD) ■ 2014 vs 2013 cost change %

Source: Bank of China, Julius Baer

Treasured timekeepers

The Julius Baer Lifestyle Index has used the yellow gold, Day Date II, 41 millimetre face Oyster Rolex since 2011 as the reference item for luxury watches. Across the eleven cities in Asia, the average price in 2014 is USD 35,431. The price variation is relatively low, with the exception of Jakata, where the local price rose dramatically so as to maintain the USD price of 33,000. This speaks to the pricing power of the item itself, which is perhaps one of the stronger hallmarks of a true luxury product. Our consumer research partners Ipsos confirm that in some cases, an international luxury maker can simply counteract local currency shifts, keeping a reference currency price unchanged, and require the consumer to 'carry' the foreign exchange movements themselves.

Chart 9: Watch

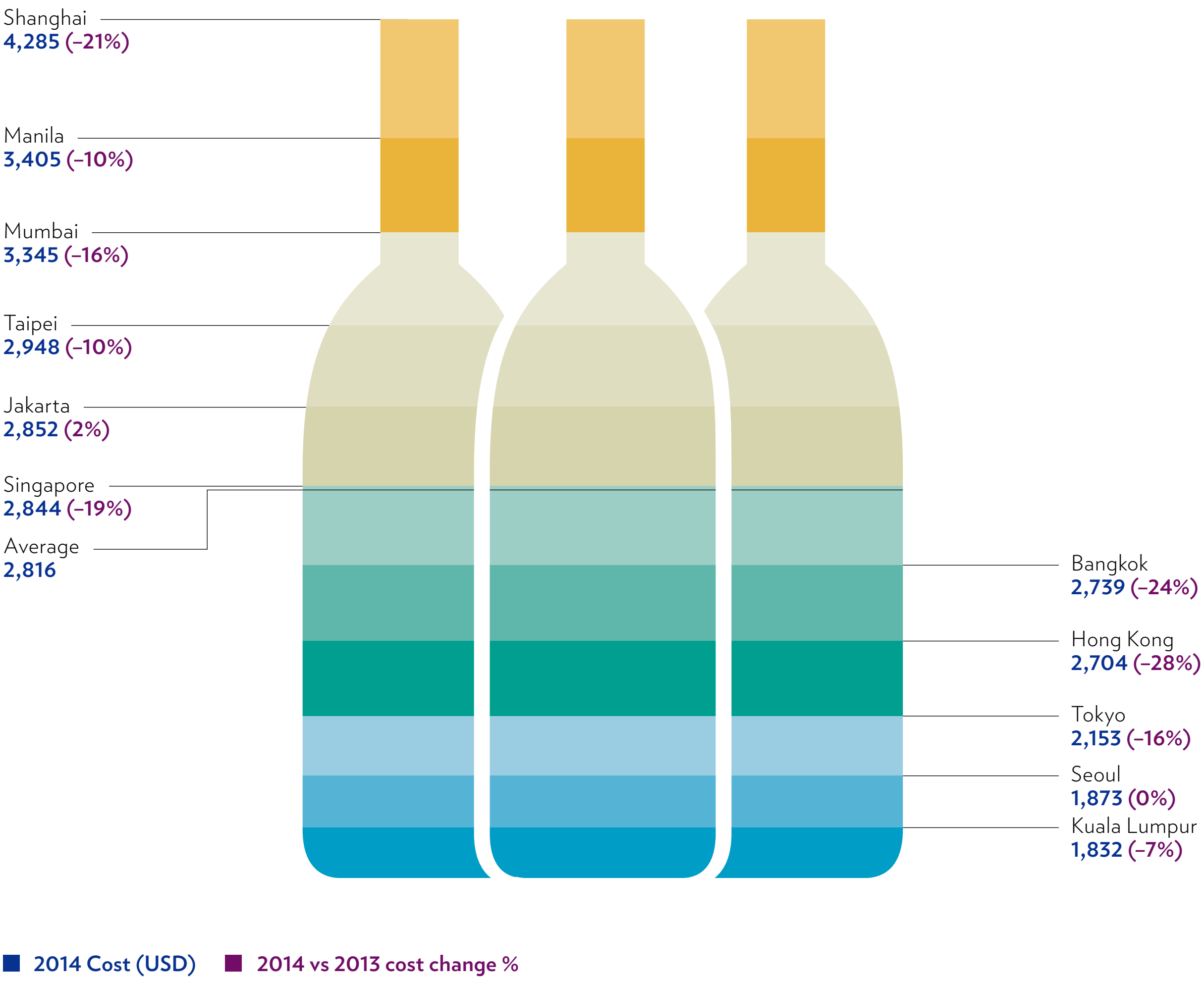


Source: Bank of China, Julius Baer

Glass half full

In the 2013 Julius Baer Wealth Report on Asia, our wine expert took the view that over time, the 'celebrity' wine labels, such as the 2000 Lafite Rothschild, would give way as palates of wine connoisseurs in the region discovered the great diversity of wines out there. Celebrity wines will always retain a certain cache, but the seemingly singular focus on this segment, which helped drive prices to headline–grabbing heights, may well be over. In this vein, the 2014 index data shows declines in almost all cities under our coverage. The US dollar price for a bottle of the 2000 Lafite Rothschild remains a hefty USD 2,816 – but as with many of the items in our index, we should expect greater competition for the incumbent product as luxury consumption in Asia changes over time.

Chart 10: Wine

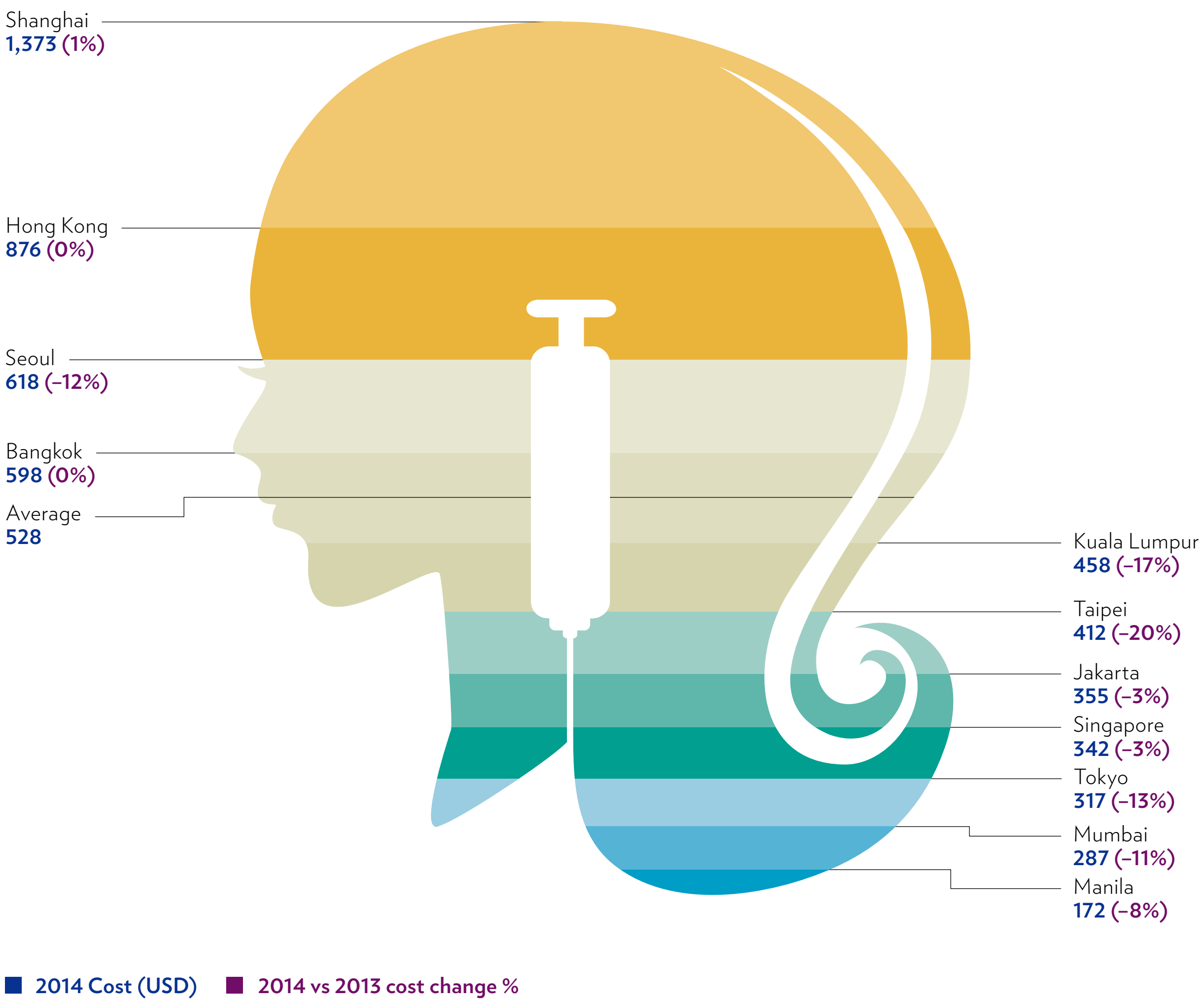


Source: Bank of China, Julius Baer

Beauty at a price

According to the manufacturer, in 2013 global sales of Botox reached close to USD 2 billion – a facial aesthetic procedure that has become so commonplace that it somewhat challenges the commonly held definition of a luxury item. As with last year, the destination of choice for the most competitively priced Botox treatment is Manila. At USD 172 per treatment, it is 12% the cost of what a client might pay in Shanghai, at a high end private clinic. Among the index components, Botox this year has had very little variation, with hardly any price movements in five of our eleven cities. This echoes what we see among the luxury healthcare providers, that established healthcare destinations may yet see increased competition in the years ahead.

Chart 11: Facial aesthetics (Botox)

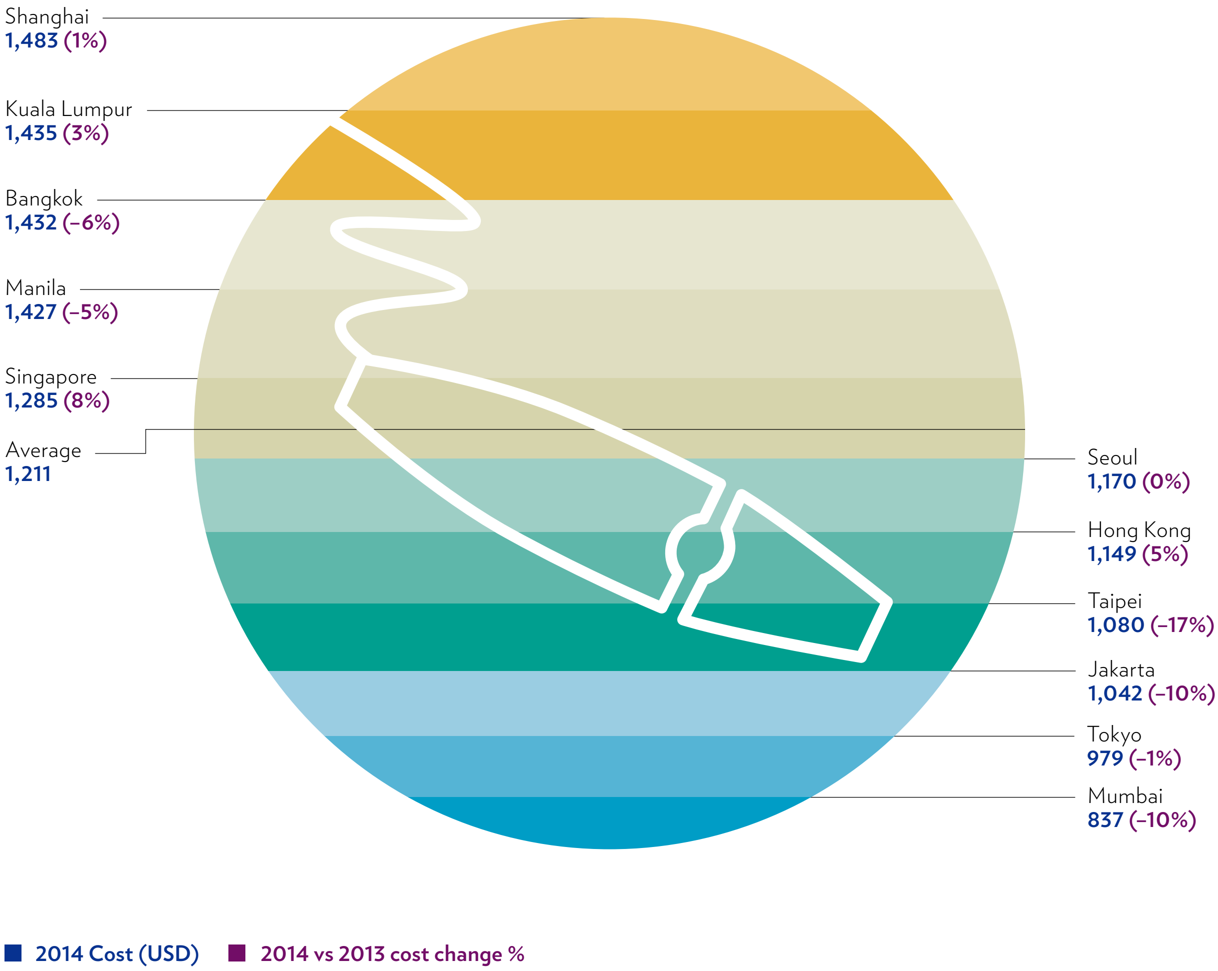


Source: Bank of China, Julius Baer

Up in smoke

Setting aside obvious health risks for the moment, arguably few items symbolise the old, traditional world of luxury consumption to the extent of a fine cigar. To this end, we have been tracking the price of a box of 25 Cohiba Siglo VI since the inception of the Lifestyle Index. In local currency terms, average prices rose about 3.7% across Asia. Notably, aside from Kuala Lumpur with a sizable 11% increase in Tokyo, the yen price rose by almost 18%, relative to last year.

Chart 12: Cigar



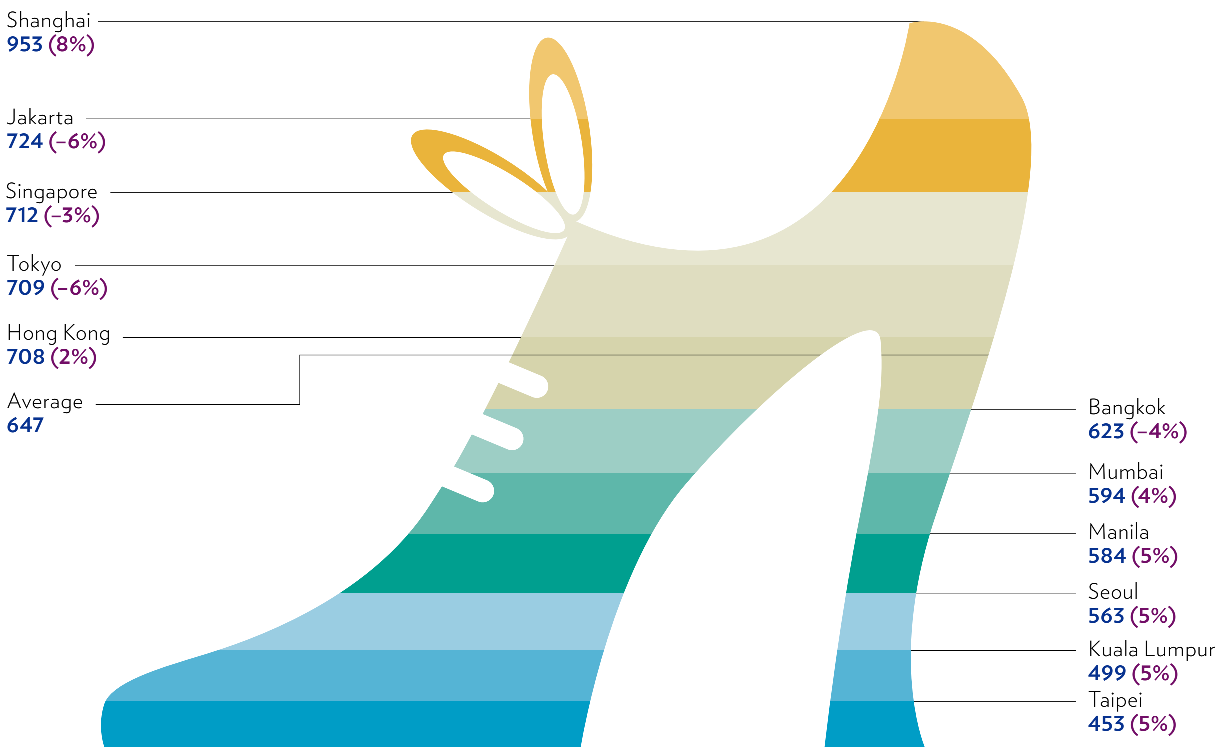
Source: Bank of China, Julius Baer

Stepping out

It's a telling statement that in a year where most items covered in the Julius Baer Lifestyle Index saw price decreases (not only due to currency movements) at least in some cities, the classic Louboutin pump with 85 millimeter heels held its ground. Average prices in local currency are up by one third from last year.

This would seem to place the Louboutin pump in to the coveted 'must have' category of luxury goods in Asia. For the record, Singapore recorded no price increase, but the base price at SGD 900, itself is near the upper range – bargain hunters may wish to travel to Taipei, where the same Louboutin can be had for about USD 453.

Chart 13: Ladies' shoes



■ 2014 Cost (USD) ■ 2014 vs 2013 cost change %

Source: Bank of China, Julius Baer

JULIUS BAER – BANK OF CHINA LIFESTYLE INDEX

The pulse of prosperity: The Julius Baer – Bank of China Lifestyle Index

This edition of the Wealth Report marks the launch of a new Lifestyle Index, complementing our ongoing coverage of how luxurious living is evolving in Asia. The new Julius Baer – Bank of China Lifestyle Index is tailored to China's new wealthy: the entrepreneurs who are at the forefront of driving economic transition and growth. This annual index will help investors gauge consumption trends across four key economic zones, covering twelve major cities in China, together the populations of which total about 153 million people. These cities represent, in our view, the epicentre of the changing face of consumption in China over the coming decades, and together with the Bank of China, we are pleased to present the inaugural findings.

Introducing a new index

The Julius Baer – Bank of China Lifestyle Index covers eight items in twelve cities: Beijing, Tianjin, Dalian, Nanjing, Shanghai, Wuxi, Guangzhou, Jiangmen, Huizhou, Chongqing, Chengdu and Xian. They are separately grouped together to form the 4 regions of: Bohai Economic Rim; Yangtze River Delta Economic Zone; Pearl River Economic Zone; and finally the Western China Emerging Zone. The items selected for the new index are meant to reflect costs 'on the ground' in China, as opposed to the original Julius Baer Lifestyle Index, whose price components in some cases carry a strong international element, such as education (and perhaps to a lesser degree) travel costs.

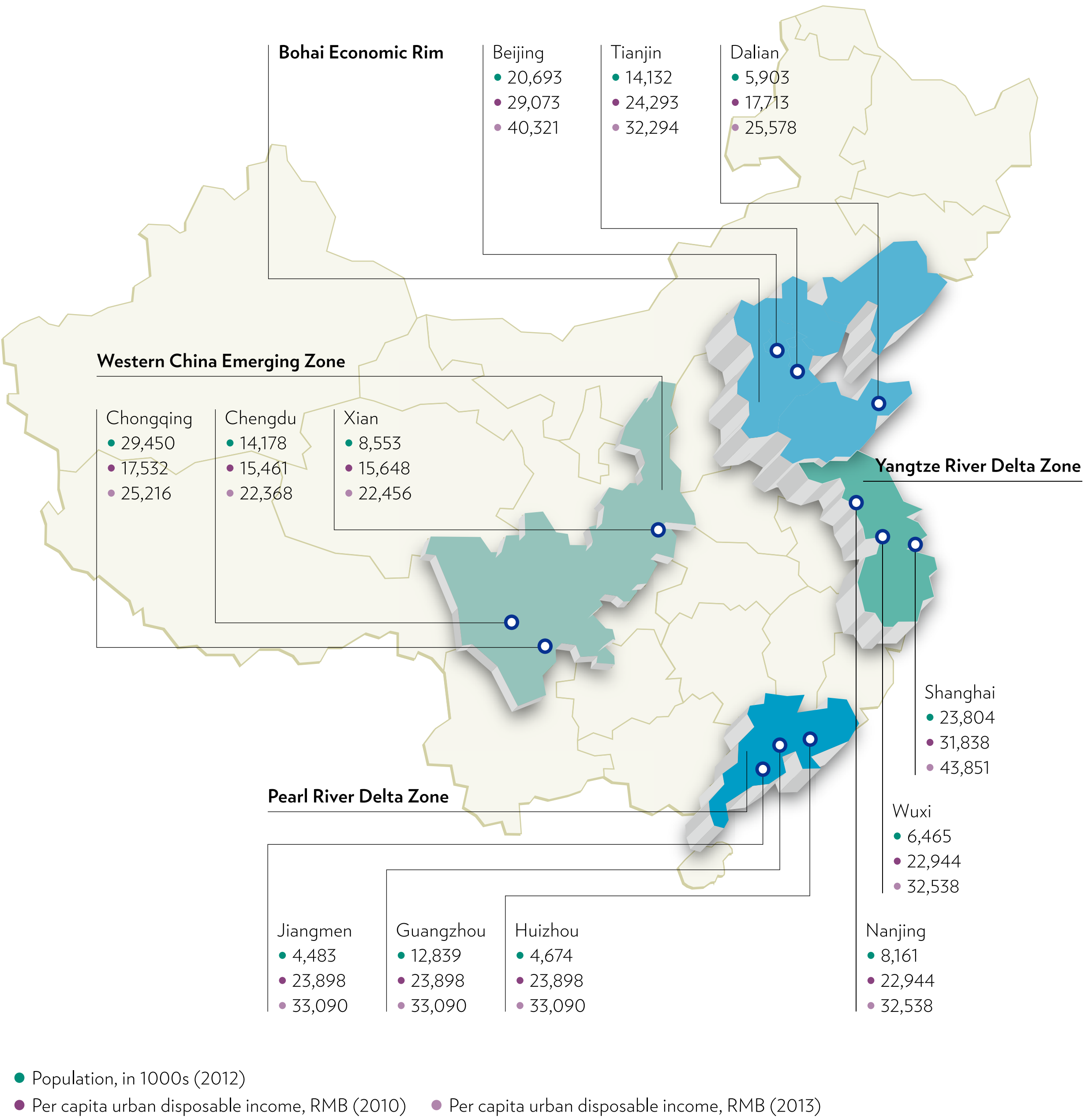
The components of the China–driven index are domestic first class travel (from the respective city to Beijing), the cost of registering a new business, dental implants, hospital stays, golf club memberships, hotel suites, high end property and wedding banquets. The items selected complement our original index in that as China's rising population of high net worth individuals travel with increasing frequency, goods available internationally and associated with that travel (cigars, shoes, watches) appear less relevant for this index. As 2014 marks the first year that we collect this data, we present the findings as a comparison between the cities and regions. In coming years, we will track how the prices evolve and what we can learn from those changes.

JULIUS BAER – BANK OF CHINA LIFESTYLE INDEX

Bohai Economic Rim Beijing Tianjin Dalian	Business Registration
	Dental Implant
Yangtze River Delta Zone Nanjing Shanghai Wuxi	First–class Flight
	Golf Club Membership
Pearl River Delta Zone Guangzhou Jiangmen Huizhou	Hospital Stay
	Hotel Suite
Western China Emerging Zone Chongqing Chengdu Xian	Residential Property
	Wedding Banquet

Source: Bank of China, Julius Baer

Chart 1: Julius Baer – Bank of China Index coverage

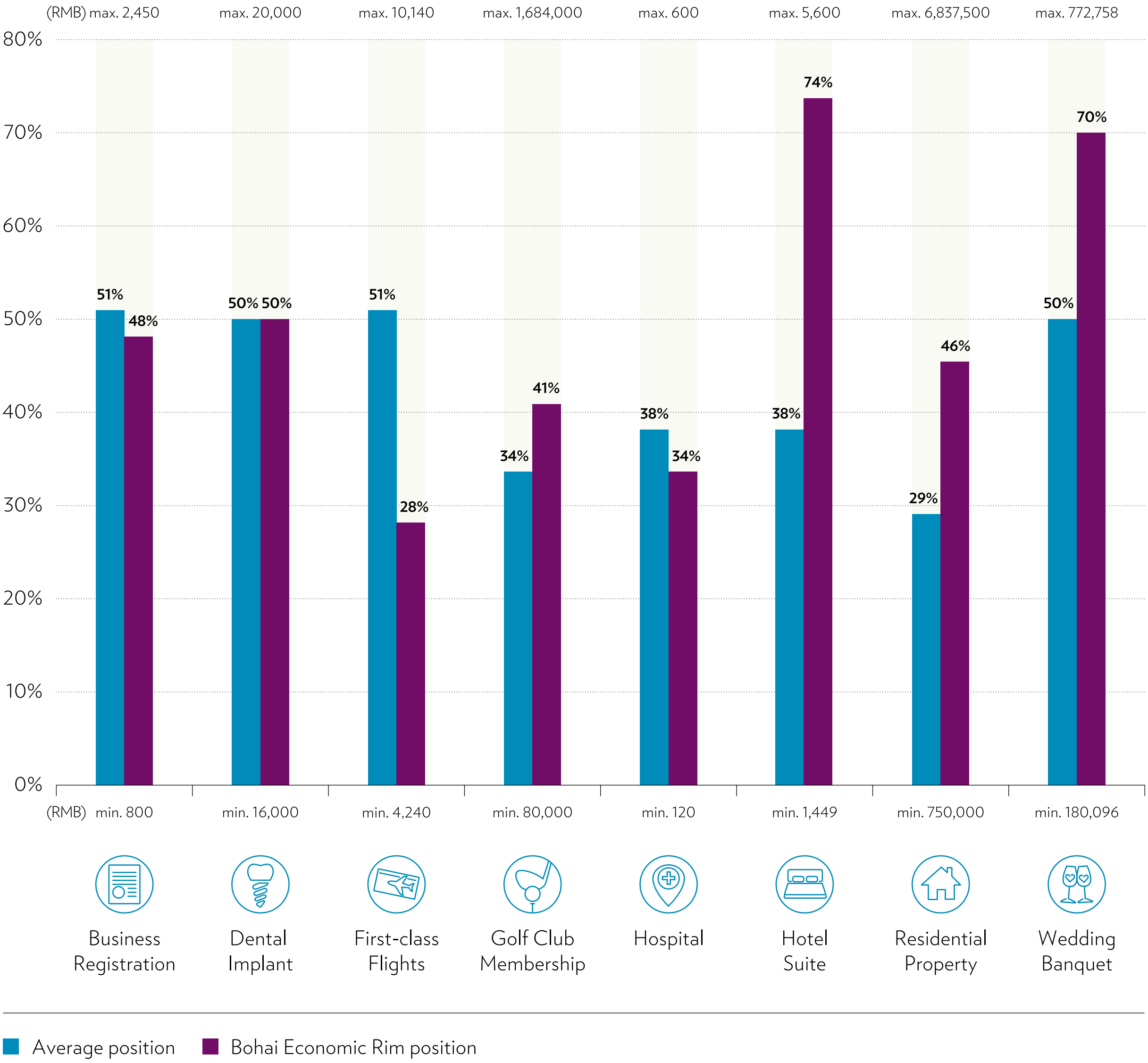


Source: UBS IB, Bank of China, Julius Baer

A first glance

First a word on the initial findings: Across the four zones, certain items display a greater degree of price variability. For example, business registrations and dental implants, where prices face a higher degree of regulation, showed little variation. Golf club memberships, property, hospital stays and wedding banquet costs, on the other hand, were considerably more variable across the twelve cities. Average costs were the highest in the Bohai Economic Zone, followed by Yangtze River Delta, Pearl River Delta and finally the Western China Emerging Zone, respectively. In terms of overall ranking, Beijing, Shanghai and Guangzhou form the top three, whereas Wuxi, Xian and Jiangmen have the lowest average costs. Conversely, the highest overall cost cities are also home to some of the lowest first class air travel – the costs of first class travel from Chongqing and Huizhou were registered as being double that of comparable travel from Beijing and Shanghai.

Chart 2: Lifestyle Index – Bohai Economic Rim

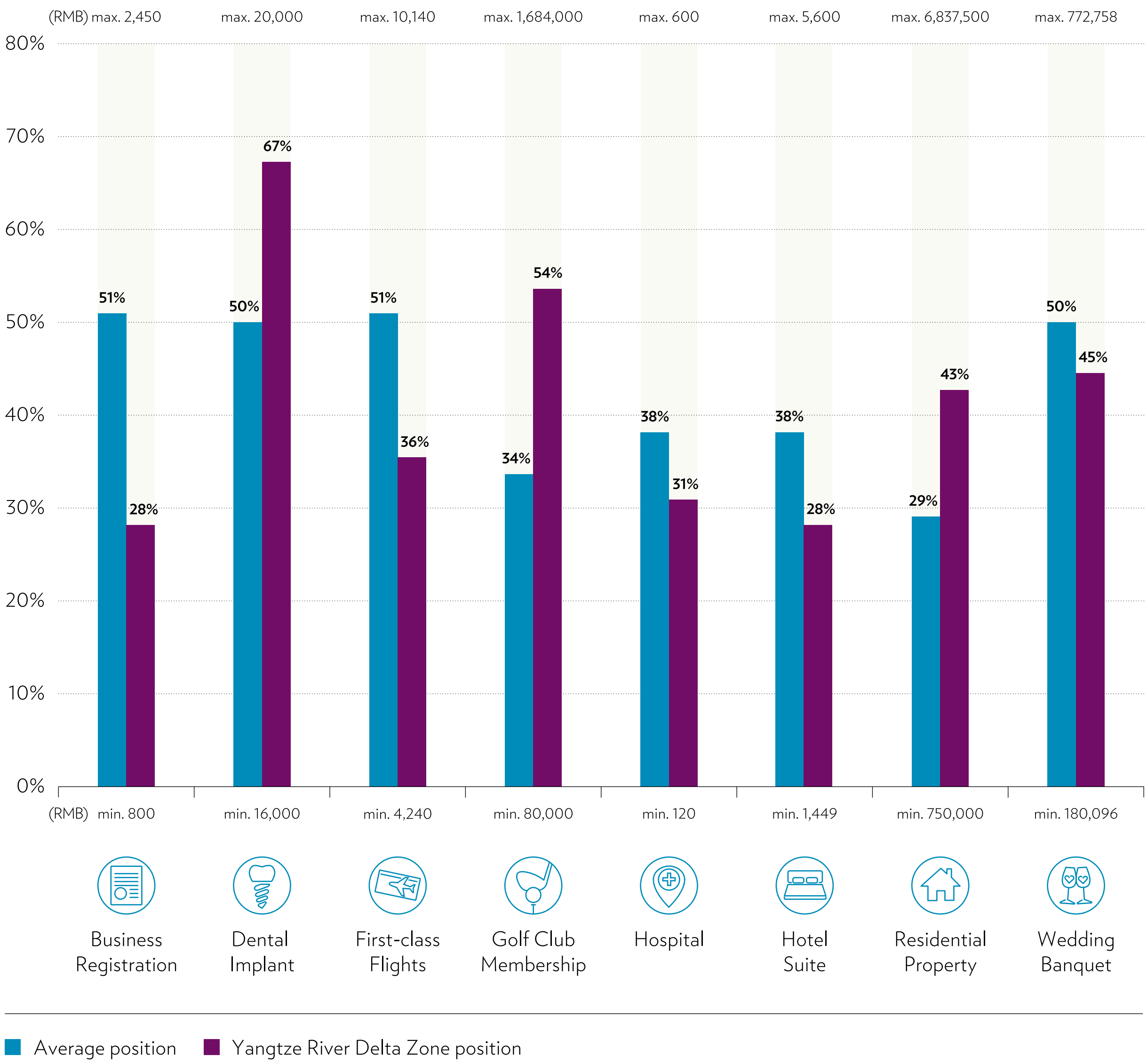


Source: Bank of China, Julius Baer

Bhohai Economic Rim: the heart of policy making

Home to Beijing, the Bohai Economic Rim stands out as featuring China's political capital and therefore the centre of policy making. On 2012 data, Bohai has a population of over 40 million people, half of whom are in Beijing. Within the region, Beijing scored the highest in terms of luxury property (close to RMB 7,000,000) and the most expensive hotel suites for all of the cities in China surveyed. Dalian and Tianjin were found to have competitively priced luxury golf resorts (about one third the price of Beijing) and similarly cheaper premium housing. In terms of first class travel, Beijing had the lowest cost airfare of all the twelve cities. Also notable is that a hospital stay (one night for the treatment of a high fever in a private suite at the top ranking local hospital) was the cheapest in Dalian, less than half the price of Beijing.

Chart 3: Lifestyle Index – Yangtze River Delta Zone

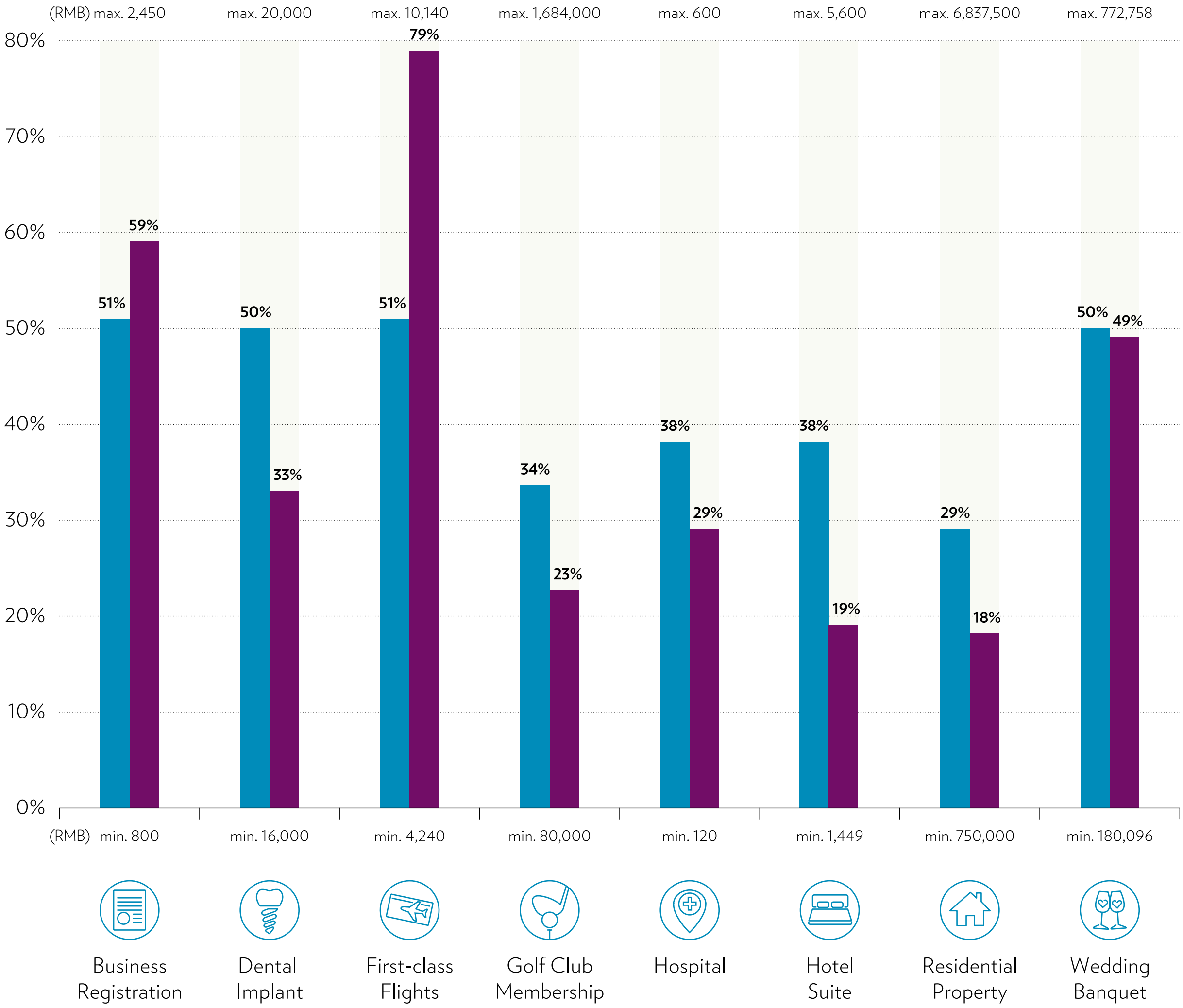


Source: Bank of China, Julius Baer

Yangtze River Delta Zone: the view from The Bund

With property prices similar to that of Beijing, Shanghai stands out among the three cities in the Yangtze River Delta. The international glamour of Shanghai tends to have prices that match this position: luxury hospitals and wedding banquet costs are among the highest in our index. Wuxi is an up and coming metropolis of 6 million inhabitants, echoing perhaps the position of Dalian in the Bohai Economic Rim. Indeed, over the past decade, population growth in Wuxi has outpaced both Beijing and Shanghai, with an almost 50% increase to at least 6 million. If Wuxi is to Shanghai what Dalian is to Beijing, then we expect to see a rapid convergence of luxury prices in the smaller cities within the zones to the leading capitals. The idea echoes what has been observed overall in China over the past ten years, which is the growth and prosperity has radiated outwards, starting in the coastal regions, moving westwards. We expect to see this trend reflected in the Julius Baer – Bank of China Lifestyle Index over the medium term.

Chart 4: Lifestyle Index – Pearl River Delta Zone



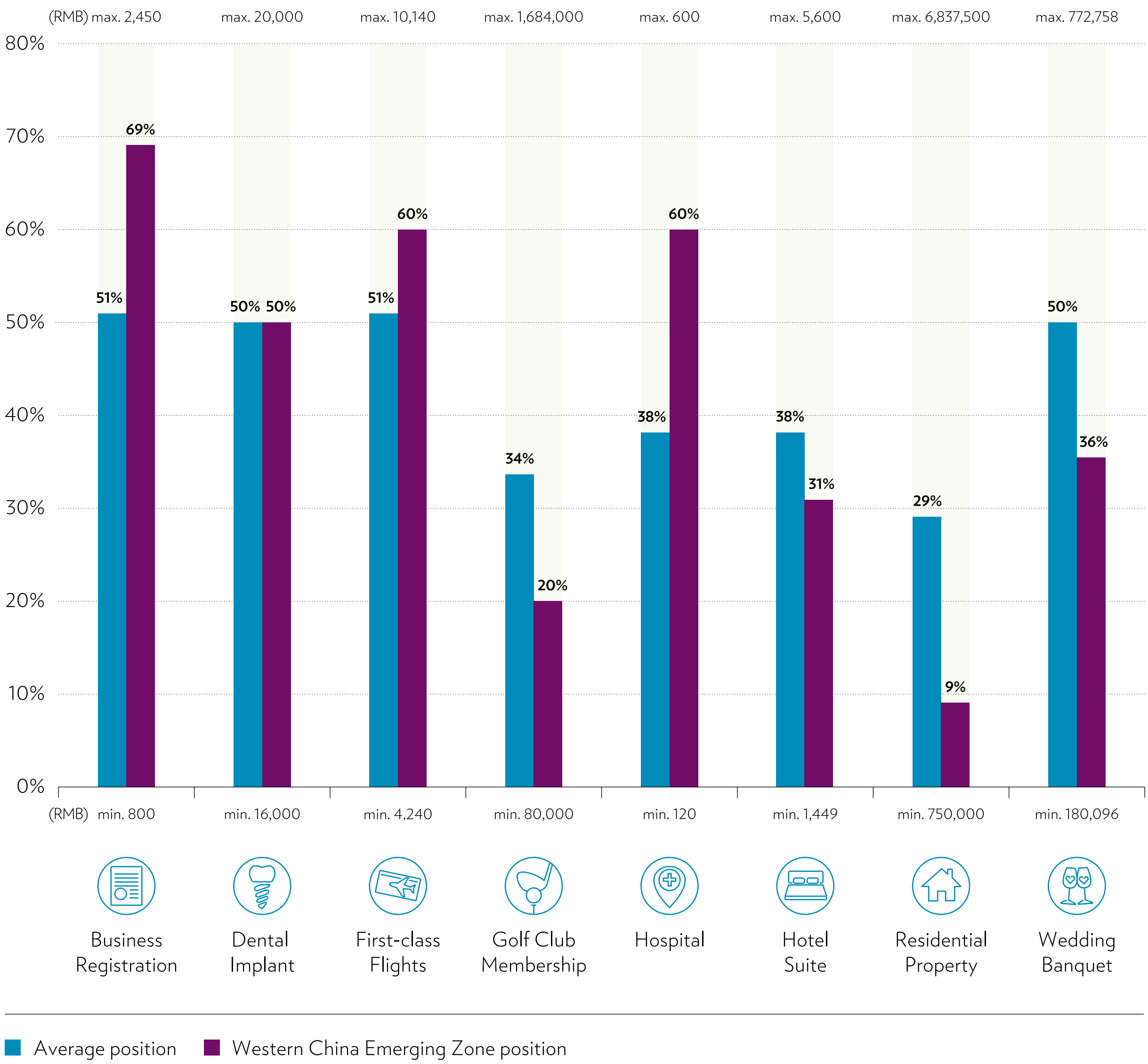
■ Average position ■ Pearl River Delta Zone position

Source: Bank of China, Julius Baer

Pearl River Delta Zone: where wealth traced its origins

Earlier in this report we spoke of the importance (both past, present and future) of trade for China's growth and prosperity. The Pearl River Delta Zone is the birthplace of China's three decade long journey to become the world's leading exporter. It is hard to overestimate the economic importance of this region, that covers cities such as Guangzhou, Shenzhen, Zhuhai, Huizhou and many more. The bulk of exports from the Pearl River Delta head to Hong Kong, where in turn they are re–exported to the rest of the world. The crucible of economic activity in this region also has luxury prices to match: Guangzhou residential property ranked third after Beijing and Shanghai. Jiangmen has the lowest average luxury prices within the three cities in this zone, in particular in the area of healthcare costs.

Chart 5: Lifestyle Index – Western China Emerging Zone



Source: Bank of China, Julius Baer

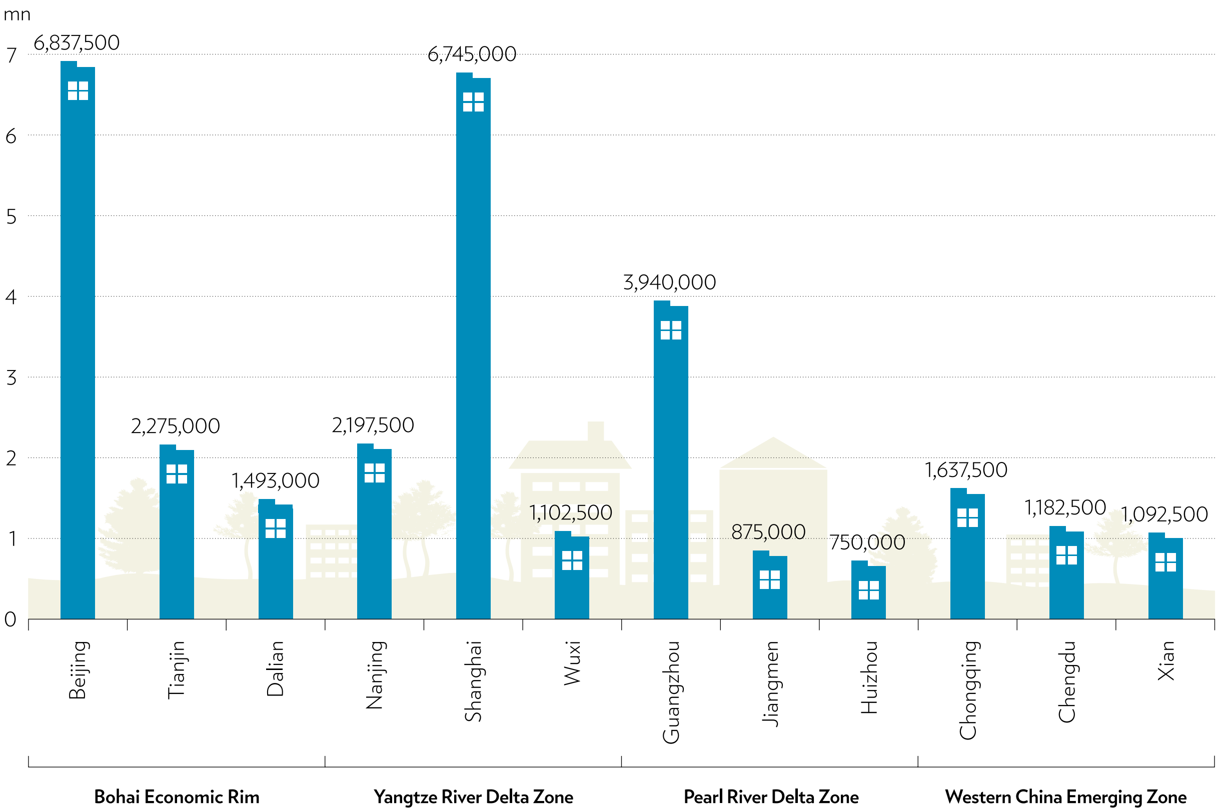
Western China Emerging Zone: China's wealth frontier

Chongqing, Chengdu and Xian are vibrant, rapidly growing cities that are on the forefront of where wealth will be created in the next ten years in China. National policies have outlined the importance of deepening the infrastructure links across China, and further west–east transport corridors will benefit this region the most, in our view. In terms of the index, luxury property is the most affordable in this region, as are wedding banquets and golf club memberships. As western China continues to converge in terms of capita income with the coastal regions, we expect a rapid catching up to take place in terms of luxury lifestyle costs as well.

A few words on property

Property prices in China take on a global relevance in that it is understood that a significant portion of fixed asset investment is linked to residential property – thereby creating a risk for overall GDP growth if the property market slows. Indeed, the converse has also been demonstrated as during 2008 and 2009, the surge in fixed asset investment was key in protecting the Chinese economy against a slowdown in external demand. As with all assets, China's property market has a cyclical dimension, the last trough in prices having been in June 2012, based on the National Bureau of Statistics. That said, we caution against generalisations in China's property markets, given local supply and demand dynamics that are very varied across the country. Regarding the top tier cities, we expect demand to remain robust, with transaction volumes rising in the coming two years. Financing conditions are likely to ease further and over the longer term, in line with the outcome of the 3rd Plenary Session, market forces will play a larger role.

Chart 6: Luxury residential property cost (RMB)



Source: Bank of China, Julius Baer

INVESTING IN FUTURE GENERATIONS

Parental aspirations for children across Asia

Last year we explored how students differentiate themselves to increase their chances to succeed in their desired university applications. This year we turn our attention to an analysis of cross city differences in parental aspirations of their children's education and future prospects, what they are willing to invest, sources of information, and parent's desires for transfer of skills and values of the next generation.

Over 829 affluent parents of children in Hong Kong, China (Shanghai and Beijing), Mumbai and Singapore were interviewed. We decided to explore the views of the top 20% of the population (annual household income in each country) who have at least one child in school level education from each country so as to gather a depth of views of families who are able to afford the education element included in our Julius Baer Lifestyle Index. That item alone has experienced double digit growth, year–on–year, during the survey, vastly outpacing the rate of inflation in the countries measured.

Questions from the interview addressed parent's investment in children financially and otherwise, their school and university preferences, their career aspirations, their preferred sources of information and ratings of what they believe are important to transfer to the next generation. What follows is a brief outline of the topline findings from this year's research.

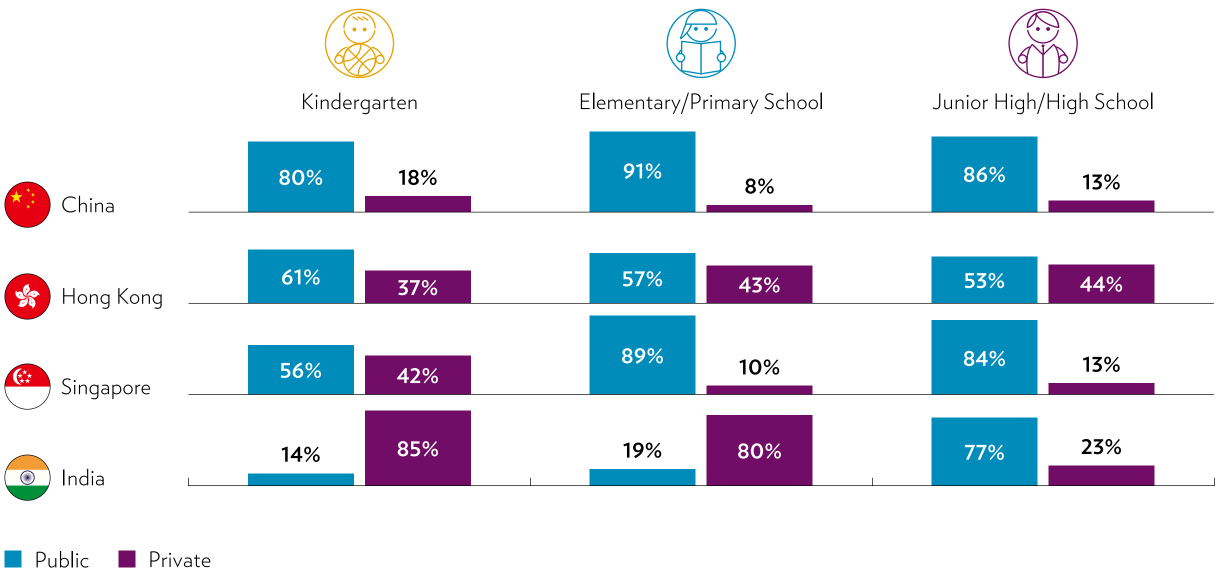
What do Asian parents expect from their children?

Parents were asked about their ambitions and goals for children. In terms of stating strong ambitions for their child's education the Indian (82%) and Chinese (85%) parents reportedly had the highest level of ambitions. Additionally these parents, by comparison, state that they have clear goals in mind of how much education they wanted their child to achieve.

Private vs public

When we ask parents if they preferred private schools over public schools, interesting patterns appear (see Chart 1: Types of public vs private school children attended). In China and Singapore there is a persistent appreciation for public schools throughout the school lifespan, from kindergarten to high school, although this is less pronounced in Singapore especially at the kindergarten level. Hong Kong results are more mixed with a slight trend toward private education as the child grows older but both education routes are attractive across the lifespan. In Mumbai the trend seems reversed, there is a strong preference for private kindergartens and primary schools, but this trend is reversed at the high school level.

Chart 1: Types of public vs private school children attended



Source: Julius Baer

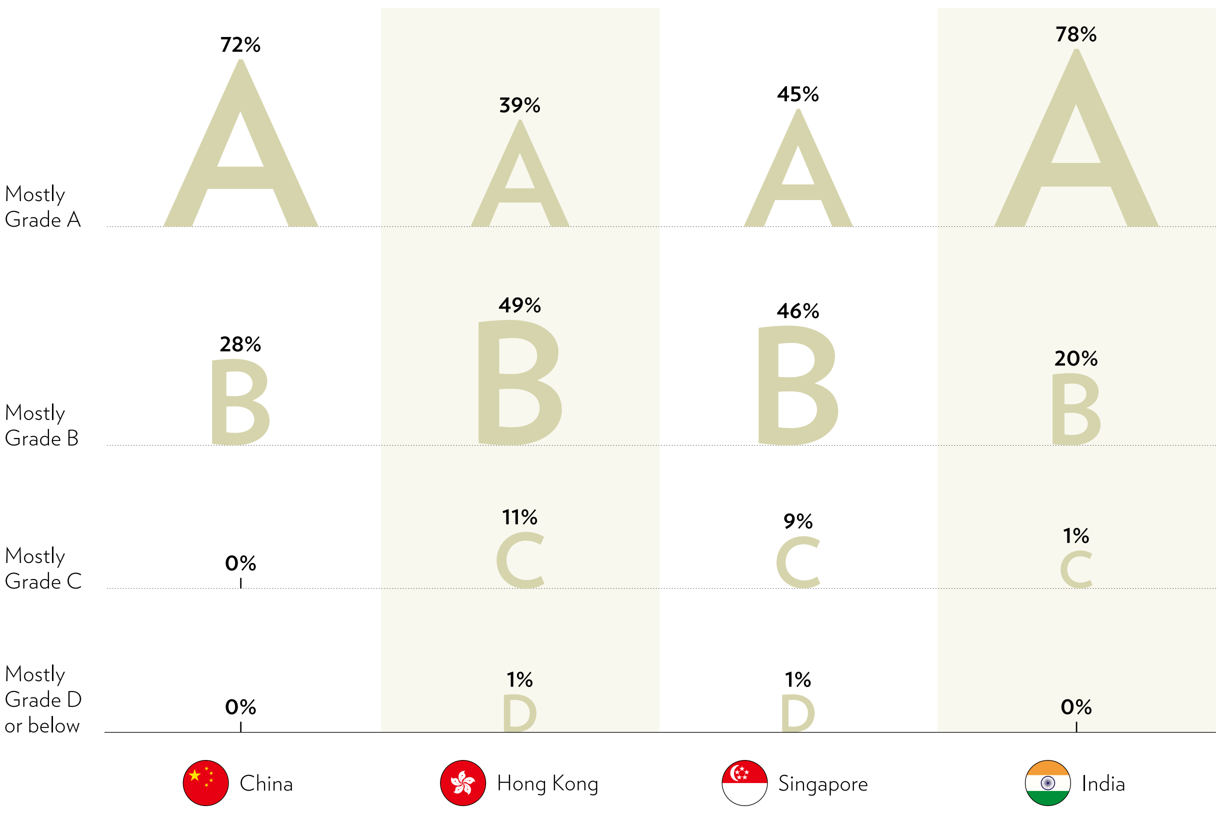
Grades now, and in the future

We asked parents what grades their children were achieving now. This score was thought–provoking when we later compared it with level of education they expect their child to gain in the future.

When we compare the cities (see Chart 2: Grades children get in school) we see that Chinese, Indian and Singapore parents say that their children mainly score A grades. By comparison Hong Kong parents say that their children are mostly scoring B grades. We also asked these parents what final educational level they expect their child to achieve. In India and China over 70 percent of parents expect their child to achieve a master's level or above at university. Hong Kong and Singapore parents are more satisfied with Bachelor level degrees in general (see Chart 3: Level of education parents expect children to attend) but for those who identified their children as 'A' grade currently, this changes and over 60% then expect them to obtain a master's or above. In Hong Kong and Singapore, those parents with a masters or doctorate degree themselves usually expect their children to achieve the same.

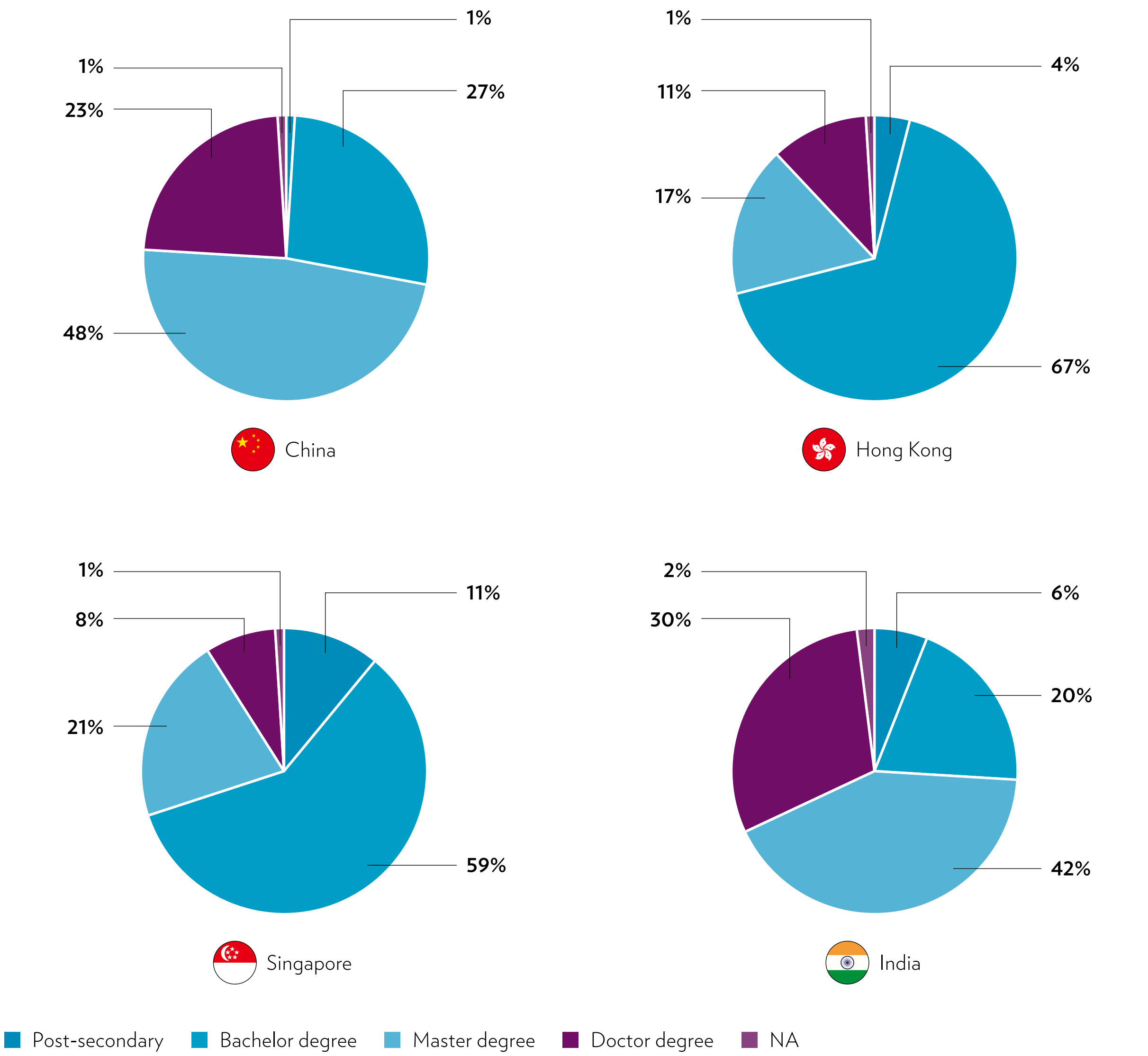
In China and India, there is a pervasive theme of high expectations, and we see it for the first time in this data set. Regardless of grade (even if the child is B grade and sometimes even lower) parents expect them to get a master or doctorate. For example from the India survey we see that parents expect the top post graduate achievements of their A grade children (72%) as they expect of their B grade children (71%). For these parents, their expectations are often higher than their own achievement. Over 70% of parents, who have a bachelor's degree in the India and Chinese samples, expect a master's degree or doctorate achievement from their own children.

Chart 2: Grades children get in school (data rounded to the nearest digit)



Source: Julius Baer

Chart 3: Level of education parents expect children to attend



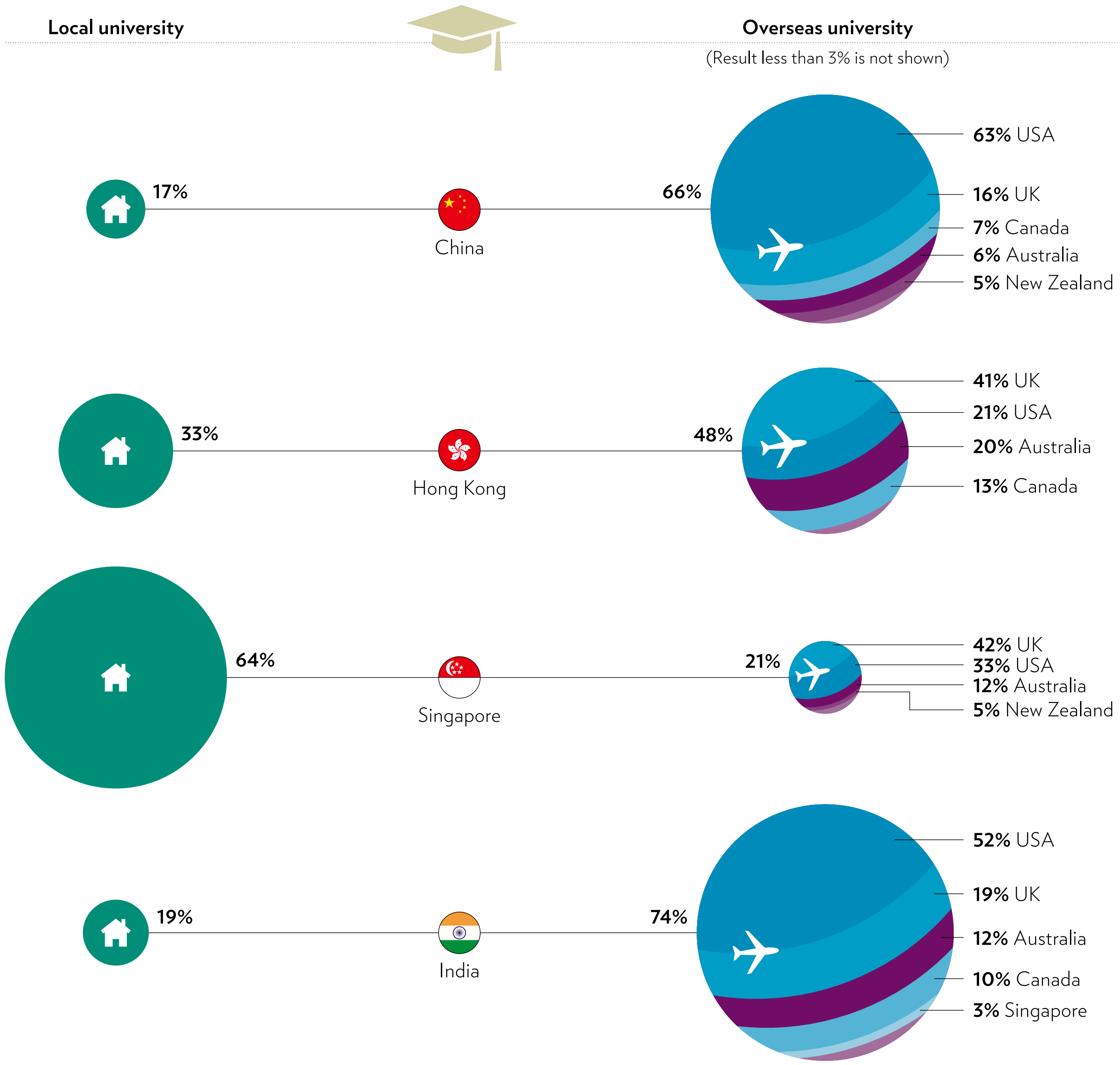
Source: Julius Baer

Type of university desired

We asked parents where they desired their children to study in terms of local versus overseas universities. China (66%) and India parents (74%) recorded a strong preference for their children to got to university overseas. Singapore is just the opposite with a strong local preference (64%). Hong Kong is more mixed in comparison to its neighbors. Whilst there is a slight preference for overseas universities, this is for less than half of the sample and nearly one–fifth of the parents said they had no preference. (see Chart 4: Type of university parents expect children to study).

For those who stated a preference for overseas university education we also asked them their preferred locations. Universities in the USA had the strongest following with the UK following in a strong second place. Australia, Canada, New Zealand and Singapore also were mentioned.

Chart 4: Type of university parents expect children to study



Source: Julius Baer

Future aspirations

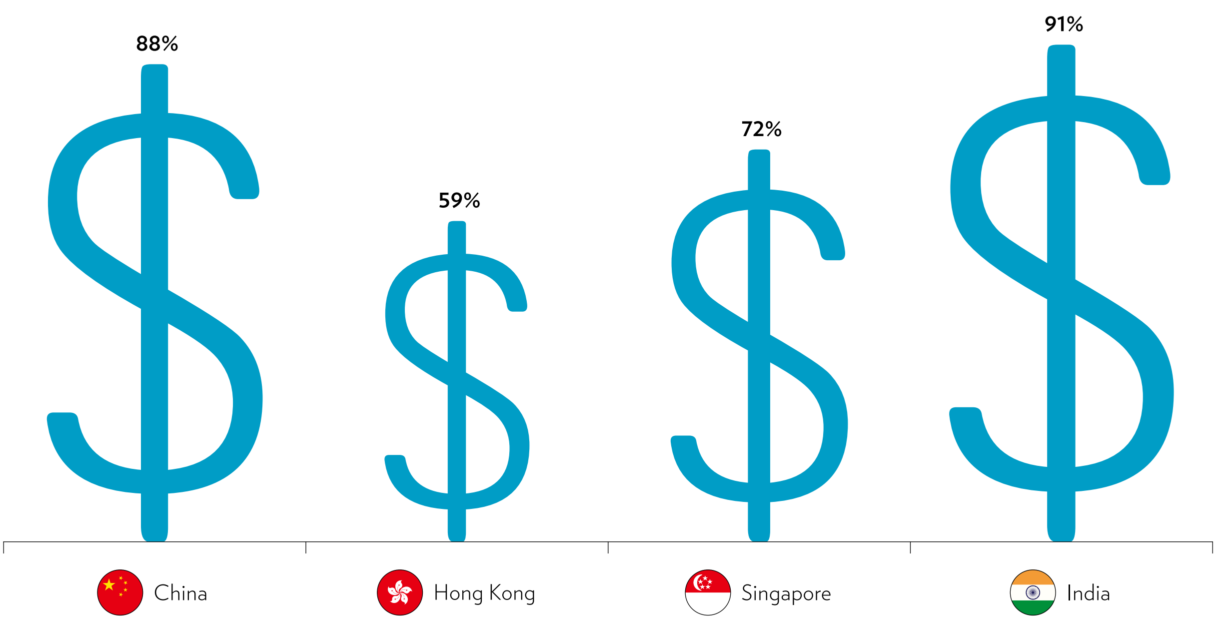
When we explored career preferences of Asian children by their parents in Hong Kong, Singapore, China (Beijing and Shanghai) and Mumbai we find that overall these affluent parents expectations of their children usually mean taking up a professional career or setting up their own business.

In China these scores are strongest with over 73% showing interest in a professional career and 57% stating that they would like their child to set up a business (parents could choose more than one option). The pattern in India is similar.

We also asked about the income level that parents would want their child to achieve. This measure is used in research not only as a parental expectation level but is also a proxy measure of market sentiment.

In all markets parents expect their children to achieve more than them, especially in India (91%) and China (88%). See Chart 5: Parents expect children to earn more than them.

Chart 5: Parents expect children to earn more than them (%)

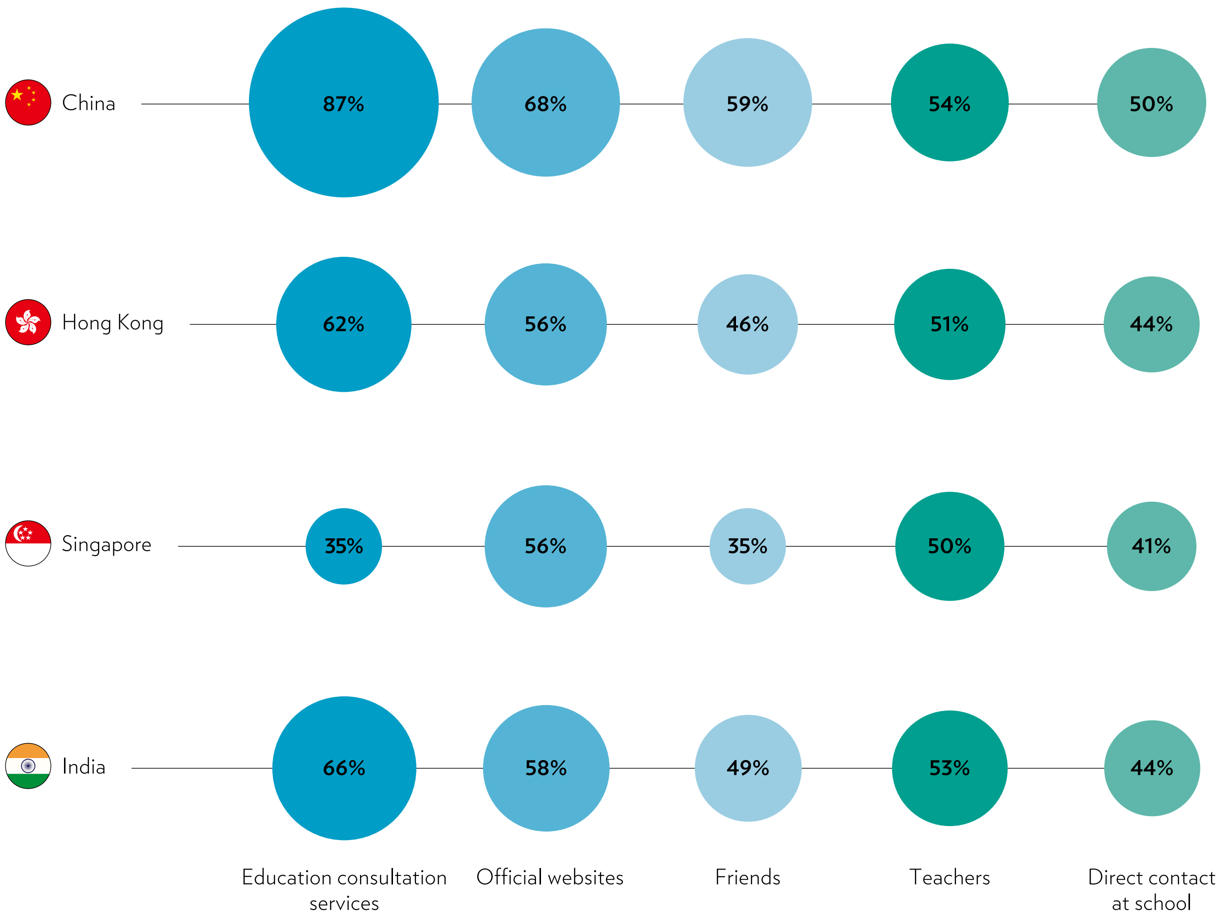


Source: Julius Baer

Sources of information about education

We gave our parents a range of sources of information about educational choices and asked them to highlight which they used most in making their decisions about their child's future (see Chart 6: Sources of information).

Chart 6: Source of information



Source: Julius Baer

Prominent sources

Educational consultants were the most popular source of information in Hong Kong, China and India. Other popular sources included: official websites, teachers at the child's current school, friends and direct contact with the school. Less prominent sources included accessing online blogs (maximum use 39% in China), talking with relatives (maximum use 40% in China and 37% in India), and seminars (maximum use 40% in India).

Country differences

For the Chinese parents their most highly ranked source was educational consultants. Many also use official websites. Among the four geographies, they are the highest consumers of friends as a source of information. Their 4th and 5th top sources are teachers at their child's current school and making direct contact with the school being explored.

For India most of the parents cited educational consultants, official website and teachers at the child's current school as their source of information.

In Hong Kong parents cited a broad variety of sources including educational consultants, official websites, and teachers at the child's current school, friends and direct contact with the school.

Singapore appears as the lowest user of educational consultants, with many other sources outranking this popular source in the other three countries. The reference to friends as a source of information was also lowest in Singapore. Singaporean parents mainly use official websites and teachers at the child's school as resources. This is most probably attached to their stated preference for local public schooling and local universities.

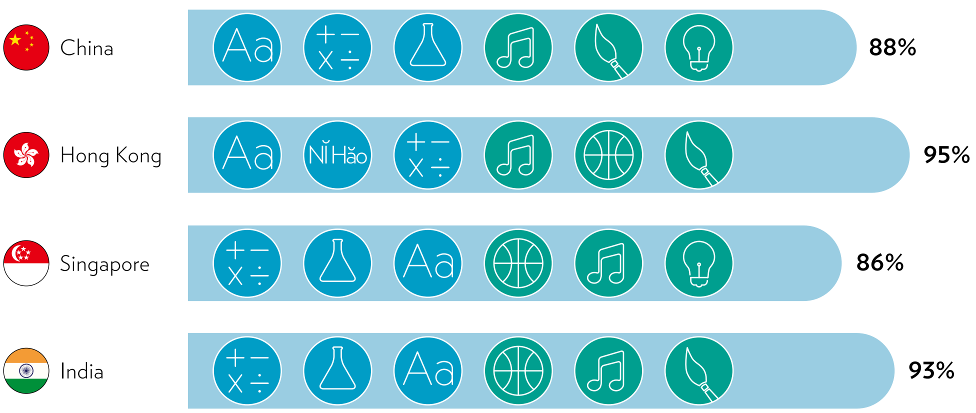
Uses of educational consultants

When parents did use educational consultants we asked them what they used them for. The most popular uses were college planning, planning their child's academic pathway, career planning and, in India, interview preparation. Overwhelming when they were asked why they used consultants, parents reported that they wanted to have objective advice.

Consumption of extra–curricular activities

In all of our markets, the parents report strong involvement of their children in extra–curricular activities. Between 86 to 95 percent of the kids have regular activities outside of school. These activities mainly focus around academic and 'interest' developing aspects. See Chart 7: Consumption of extra–curricular activities.

Chart 7: Consumption of extra–curricular activities



Source: Julius Baer

Regional differences

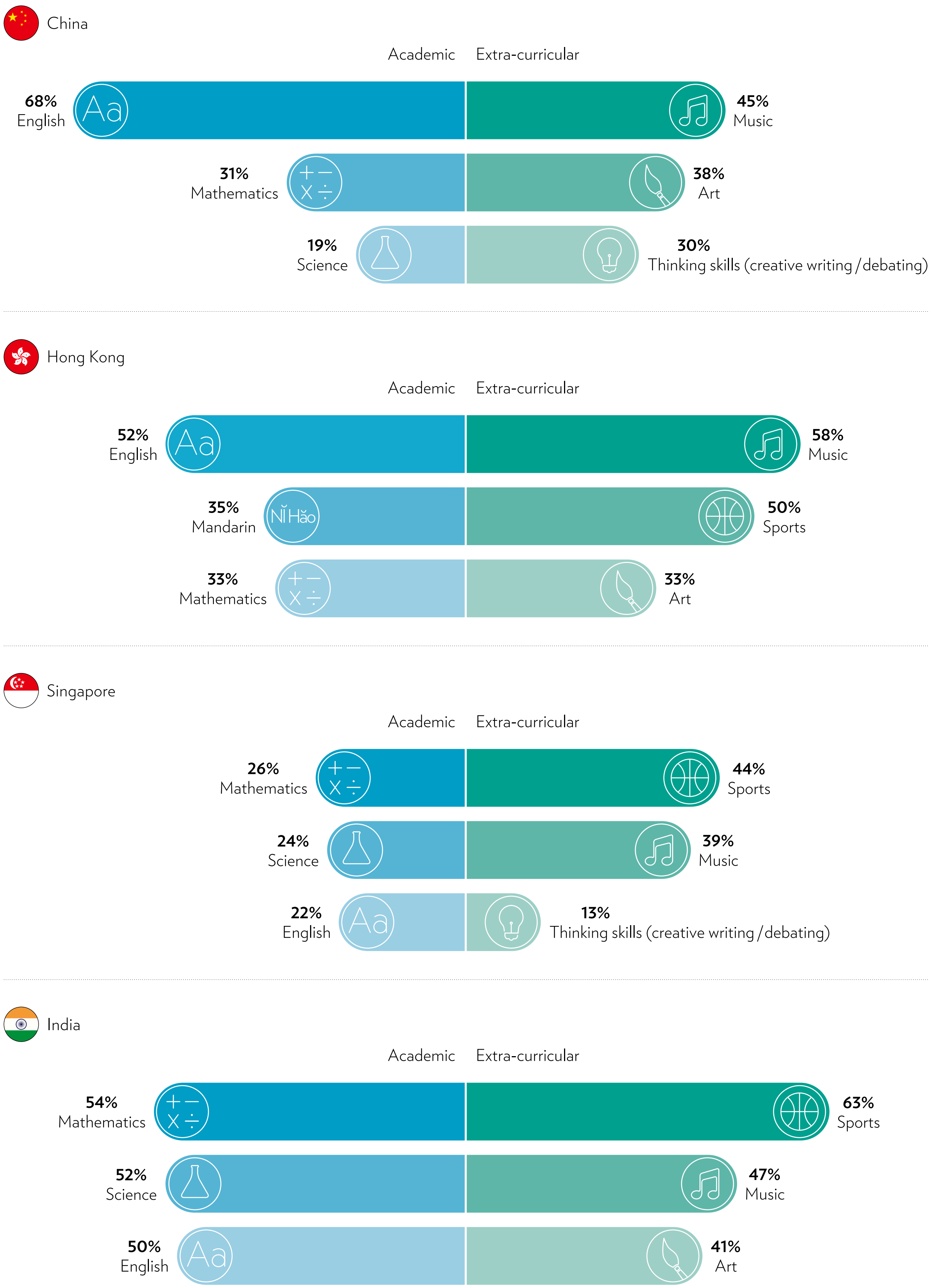
Across the region the most popular academic subjects are English and Math. The most popular interest activities are sports and music.

In China the most popular extra circulars are English, music, math and art. In Hong Kong, in general, the consumption of extra–curricular activities is the highest among our four geographies. The three most popular subjects are music, English and sports. In India, their most highly rated activities are sports, math classes, science and music. Singapore, comparatively, has the lowest consumption measures for extra–curricular activities. In that city, the most popular are sports, music and math class.

In terms of volunteer groups, uniform groups and the like, the consumption of these activities is much lower than that of academic or interest based programs.

Volunteering as an activity is more heavily encouraged in India (31%) followed by Hong Kong (26%). Uniform activities, such as scouts, are more popular in Hong Kong (24%) and Singapore (21%) than elsewhere.

Chart 8: Top three activities by market



Source: Julius Baer

Parental investment on education

This year's wealth report explores parental aspirations and investments of over 800 parents from China (Beijing and Shanghai), Hong Kong, Singapore, Mumbai and India.

Investment by birth order

In all of the countries surveyed the parents reported that their first child received most of the resources they invested in their child's education. This ranged between 73% in Singapore and 93% in China. The Chinese score may be a reflection of the historical one child policy of China.

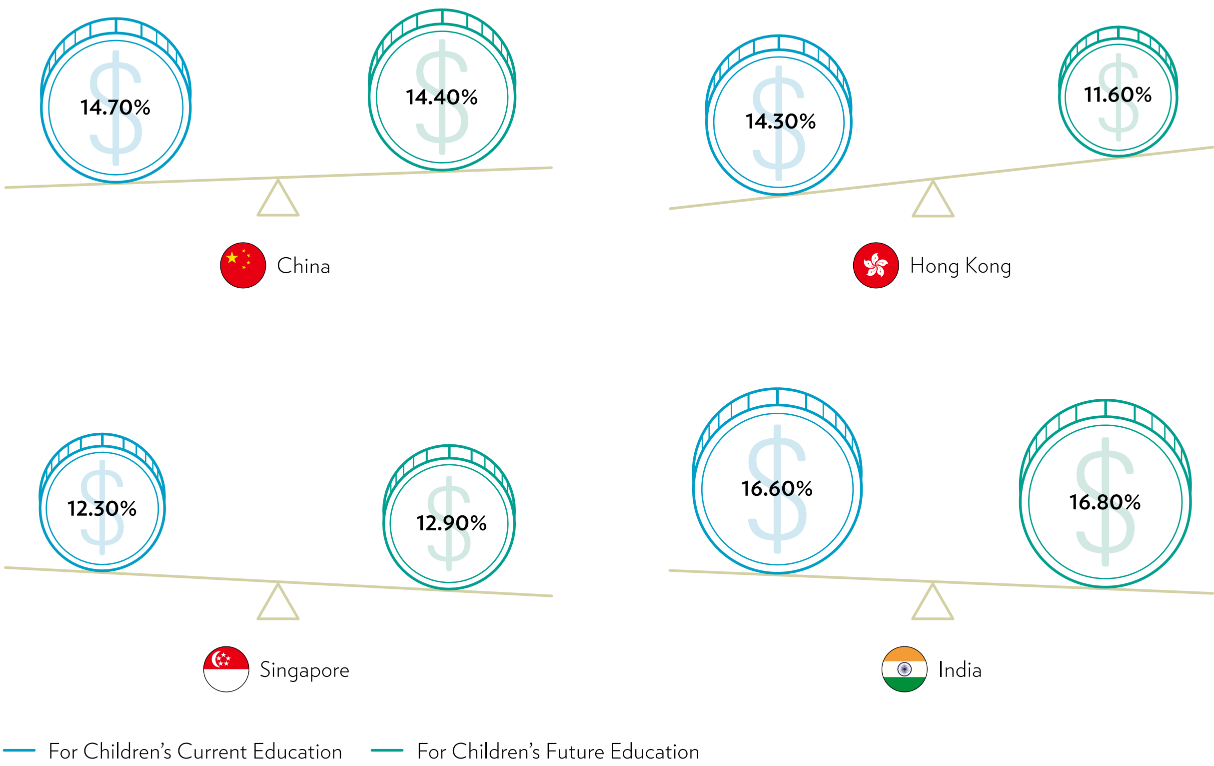
Investment by education level

Across the education lifespan overall in Asia, parents say they spend about the same – for kindergarten, primary and secondary school. There is a slight trend in India and China for parents to invest slightly less as children get older, which may be attached to the higher ambitions that parents say they hold in these markets.

Education investment as part of household income

Eight hundred and twenty nine affluent level parents were asked how much of their monthly income was spent on their children's education. Chinese, India and Hong Kong parents say that they spend between 14.3% and 16.6% of their monthly income on their child's education The question was also asked if they expected this to change in the future and parents in China and India gave similar scores again, implying that their monthly investment will last for a prolonged timeframe.

Chart 9: Savings for children's education (as a % of monthly household income)



Source: Julius Baer

Irrespective of the amount, we also asked about their willingness to invest in education and believe that it will help particular goals. All over Asia, parents believe in investing for higher education. In China and India in particular parents express significant willingness to financially assist to achieve higher education, pursue a professional qualification, start a business or pursue an interest.

Whilst there was also support in Hong Kong there seems to be a lower perceived need to invest in education. Indeed many Hong Kong parents believed that their children could and should make without financial support. Some that we spoke to said this was part of their 'helicopter parenting' mentality. Helicopter parents refer to parents who 'hover' over their children at home and at school making sure that they complete their work and are academic success stories, without external financial support.

Preparing to pay

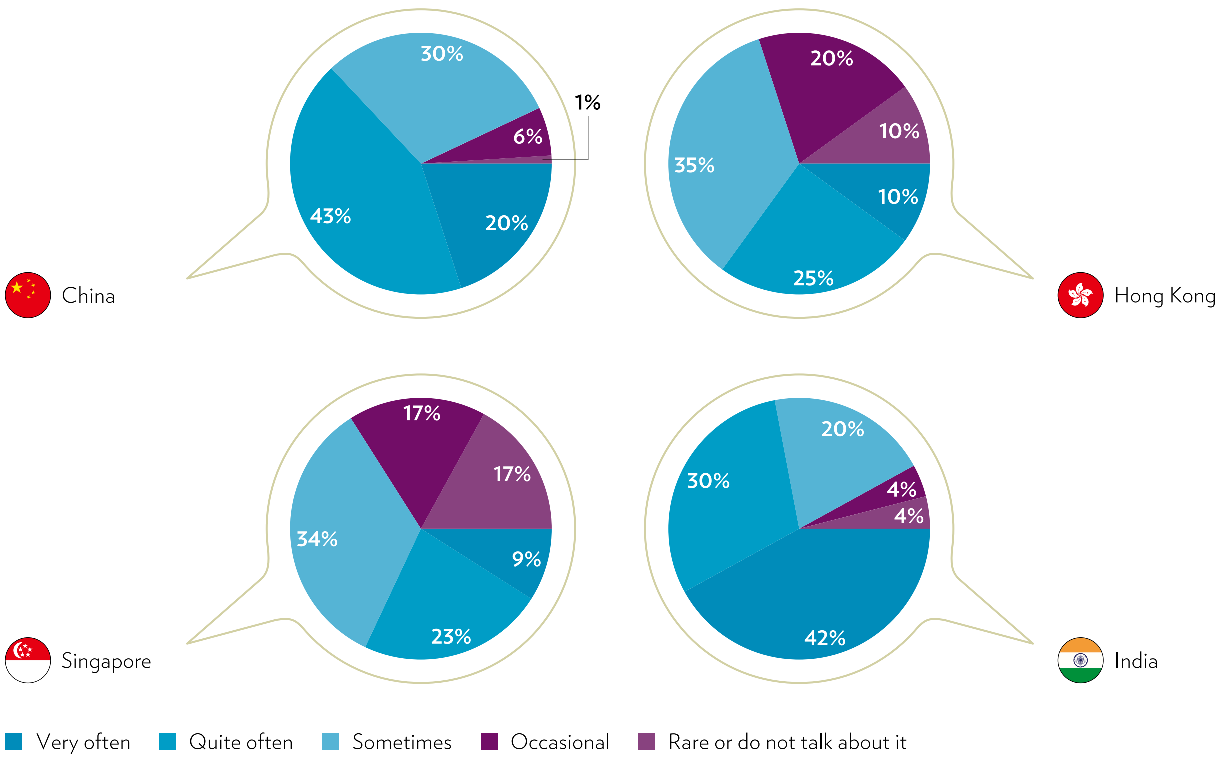
How do Asia affluent parents prepare to pay for children's education? For the most part they use their own savings. Occasionally, but less often, they buy special insurance or education funds. In India more than 50% of parents said they made specific extra investments to prepare to pay for education, more than anywhere else.

One interesting, and perhaps unexpected finding, is that this particular population refrain from overseas properties for educational purposes. The India level (23%) was the highest of our sample. This may only be a behaviour of the Ultra High Net Worth individual (UHNWI), not the affluent set.

Bragging rights

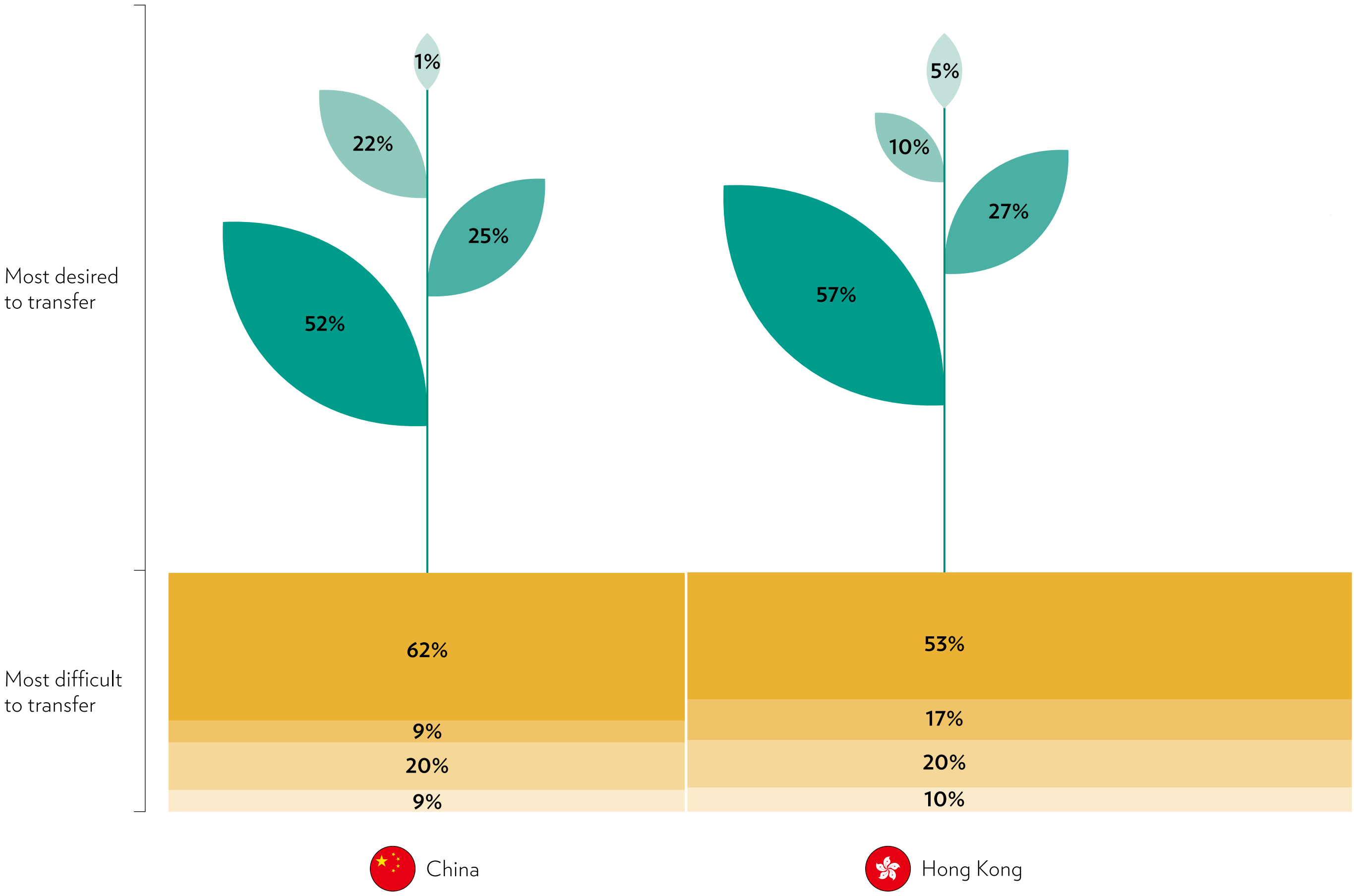
We asked parents how often do they talked with friends and family about their children's achievements. Compared to Hong Kong and Singapore, India and Chinese parents talk about their children to others extremely frequently. In China the 63% of the parents surveyed said they spoke to friends and family about the children's achievements either quite often or very often. 72% of Indian parents said they talked this much as well. It appears that partnered to high goals and high expectations of children, there is also a strong desire to talk when children achieve. See Chart 10: Frequency of parents talk about children's achievement.

Chart 10: Frequency of parents talk about children's achievement



Source: Julius Baer

Chart 11: Skills most desired and most difficult to transfer (data rounded to the nearest digit)



Source: Julius Baer

Into the future: Insights into transfer

Amoung UHNW families transfer of wealth is strikingly unsuccessful. In the landmark US research by Williams and Preisser[1] in the United States 70% of families failed to transfer their wealth successfully to the next generation.

We took the opportunity to ask our affluent group about their ambitions regarding transfer of wealth and such to their children. We asked them which asset they would like to transfer most to the next generation: their skills; knowledge; personal values; or the money. See Chart 11: Skills most desired and most difficult to transfer.

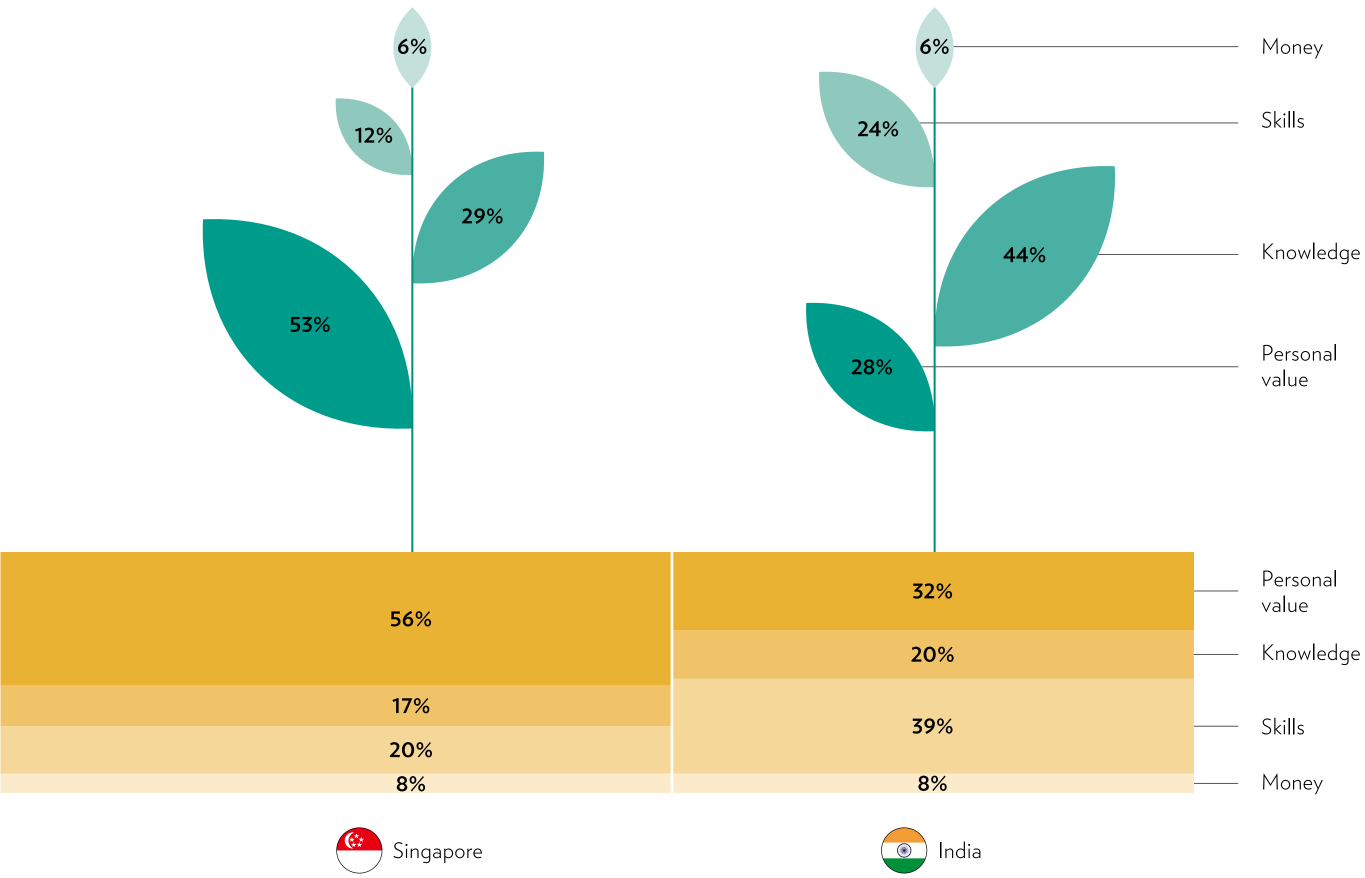
The results were compelling. The overall lowest rated asset seen as important to transfer was money. This pattern was the same across all geographies.

The most important asset to be transferred from these parents to their children is, without doubt, personal values. Personal values were rated as a prominent first choice in China, Hong Kong and Singapore and as a competitive second choice in India.

Not only do parents see passing their personal values onto their heirs and children as the most important, overwhelmingly they rate it as the most difficult asset to transfer.

It appears that might be perceived to be much easier to pass on financial wealth (rated as the easiest transfer by our parents) than some of the ethos and mentality used by the parents to create their wealth in the first place.

[1] Williams R and Preisser V, 2003, Preparing Heirs, Robert Reed Publishers, Oregon USA



Conclusion

This year we took a deep dive into an aspect of the Julius Baer Lifestyle Index – the element of education.

We explored Asian parents' goals and their ambitions for their children and found some facinating traits among affluent families from China, Hong Kong, Singapore, and India. Findings include:

- Chinese and India parents hold particularly strong ambitions in education for their children.
- Most of the parents surveyed want their children to take up professional careers. Their second choice is for them to start their own business.
- Hong Kong and Singapore parents will be mostly satisfied if their children achieve a bachelor's degree at University. The majority of India and China expected higher levels than this, irrespective of children's current grades.
- Most parents expect their children to earn more than them in the future.
- There is a strong use of educational consultants, especially in China.
- Asian children are heavily involved in a variety of extra-curricular activities.
- Affluent parents in Asia are spending 12.3% to 16.6% of their monthly income on the children's education.
- The first child receives the lion's share of this investment in most countries.
- Chinese and Indian parents like to talk to friends and relatives about their child's achievements.
- Parents want to transfer their personal values to the next generation and acknowledge that this is the most difficult asset to transfer, and money is the easiest.

CHINA – HEAVILY INVESTED IN THE FUTURE

When compared to the other three countries surveyed, Chinese parents generally hold one of the most ambitious goals and views of their children, rivalled only by the parents from Mumbai. Some of the trends noticed from our analysis of their responses to the survey include:

- Chinese parents state that they have strong ambitions for their children (85%).
- Chinese parents report that they invest most heavily in their first child (93%).
- In China, public schools are reportedly preferred over private schools throughout the educational lifespan (kindergarten 80% preference; primary school 91%; high school 86%).
- Extracurricular activities focus around academic subjects, particularly English. The most popular interest related extracurricular activity is music.
- Chinese parents prefer their children to study at an overseas university (66%) with the USA being the favoured country (63%).
- Over 70% of parents expect a master's degree or higher to be achieved by their child. They also expect their children to earn more than them in the future (88%).
- Parents believe that children can achieve their goals even without financial assistance but still spend (for this affluent group) an average of 14.7% of their monthly income on their child's education and this won't change in the future. They mainly use their personal savings to fund their children's education.
- Chinese parents talk often or very often to family and friends about their child's academic achievements (63%).
- Many parents in China say that they use educational consultants as an information source about education for their child (87%).
- In terms of transferring skills they want to transfer their personal values to the next generation, over money, and of our four country groups, see this more frequently as the most difficult asset to transfer.

INDIA – STRONG AMBITION

When compared to the other three markets surveyed, India parents from Mumbai are extremely ambitious for their children's future. Some of the trends noticed from our analysis of their responses to the survey include:

- India parents state that they have strong ambitions for their children (82%).
- In terms of private versus public education, in the early years there seems to be a preference for private education (at kindergarten and primary level) but this is reversed at high school level with the preference being for public education facilities.
- Like other Asian parents, India parents invest in extra–curricular activities to educate their children (93%), especially activities which are interest developing (99%) with a special focus particularly on involvement in sports (63%). Indian respondents also rated the highest use of volunteering activities among the sampled geographies (31%). In regards to academic focused extracurricular activities, they focused on three main topics: math (54%), science (52%), and English (50%).
- Indian parents had the strongest preference for their children to study at an overseas university (74%) with the USA being the favoured country (52%).
- Over 70 percent of parents expect a master's degree or higher to be achieved by their child. 30% of the parents surveyed expect their child to achieve a doctorate degree. They also expect their children to earn more than them in the future (91%).
- Parents believe that children can achieve their goals even without financial assistance but still spend (for this affluent group) an average of 16.6% of their monthly income on their child's education and this won't change in the future. They mainly use their extra personal savings (64%) or specific extra investments (56%) to fund their children's education.
- Indian parents talk often or very often to family and friends about their child's academic achievements (72%).

HONG KONG – MIXED AND MODERATE

Whilst all of our parents are ambitious for their children, in comparison to the parents from China and India, Singaporean and Hong Kong parents appear more moderate.
Some highlights of our findings from Hong Kong parents include:

- Whilst there is a slight preference for public schools at every level of the educational lifespan, this is much more mixed than any other market and the preference is therefore not as marked.
- Most Hong Kong parents will be happy if their child achieves a Bachelor level degree (67%). Only 28% want higher than this, which is considerably lower than the China or India sample. Whilst they expect their children to earn more (59%) this is also low compared to China and India. Hong Kong parents say that their children are aware of their expectations (64%).
- Hong Kong parents are the highest consumers of extra–curricular activities for their children (95%), focusing on English (52%), music (58%); sports (50%) and Mandarin (33%). Close to 1/4 of the children are involved in volunteering activities and uniform activities.
- There is a slight preference towards overseas education but this is moderate (48% would prefer overseas; 33% would prefer local university and 19% have no preference). When they would like their child to study overseas it is the UK (41%) which ranks as first preference, with the USA (21%) taking second spot, and Australia and Canada also being mentioned.
- Whilst many parents expect their children to achieve regardless of financial investing (58%) they spend 14.3% of their monthly income on education for their children. They do expect this to reduce as their child gets older (to 11.6%), and they say that they use extra savings plan to pay for future education.
- Hong Kong parents do not talk about their children's achievements as much as their India and China based counterparts with only 1/3 talking about this often or very often to friends or family.
- Similarly to China, Hong Kong parents want to mostly transfer their personal values to the next generation (57%) and see this the most difficult asset to transfer (53%).

SINGAPORE – LOCAL INVOLVEMENT

Similar to Hong Kong parents, Singapore parental views seem moderate when compared to parents from China and India. Interestingly there is obviously confidence in their local education system at school and university level, and less desire of extracurricular education than other countries. Some highlights of our findings from Singapore parents include:

- When a child enters formal schooling (primary and secondary) there is a clear preference in Singapore for public schools. At kindergarten this is more mixed with a slight preference toward private kindergartens over public.
- Most Singapore parents will be happy if their child achieves a Bachelor level degree (59%) and 72% expect their child to earn more than them in the future.
- Like our other featured geographies, Singaporeans are keen users of extra–curricular programmes (86%). These activities are spread across interest and academic programmes. The most popular extracurricular activity is sports. Academic lessons focus on math, science and English. Music is also of interest (39%).
- There is an interesting finding when we asked parents if they preferred overseas versus local university. 64% prefer local universities, and only 1/5 prefer overseas universities. There must be strong local confidence in the tertiary offerings in Singapore.
- Singaporean parents, in comparison have the lowest confidence that their children can achieve without them personally investing in their future (37% say they are confident that their child can achieve without their investment). Having said that, they spend less than others, 12.3% of their monthly income on education for their children and they do not expect this to change in future.
- Singapore parents do not talk about their children's achievements as much as their India and China based counterparts with only 1/3 talking about this often or very often to friends or family.
- Similar to China and Hong Kong parents, Singaporean parents want to mostly transfer their personal values to the next generation (53%) and see this is the most difficult asset to transfer (56%).

CONCLUSIONS

China's inflection point

One of the principal tasks of historians is to mark the milestones in the development of nations, when pivotal turning points are reached and to record the consequences that followed. In 2010, China became the undisputed leader in global exports, promising to retain this status for many decades to come. Year 2014, in our view, signals the beginning of a deep transformation of China's economy whose signature element is the boosting of productivity via sweeping reforms and the gradual opening of the capital account. China's currency, the renminbi, is the flagship symbol for the latter and we expect it to achieve international reserve status in the medium term.

For these reasons and more, Julius Baer and the Bank of China combined resources to produce the 2014 Wealth Report: Asia. In addition to our longstanding work in tracking the cost of living in luxury in Asia, we embarked on a China–specific Lifestyle Index, whose aim is partly to track how economic growth is spreading westward across China.

Separately, this year's report featured a rare survey of private banking clients in China. These investors are confident and look to the Bank of China as their primary source of investment advice. But they face rising costs, in particular in the area of education, which is why we have a dedicated section that provides a deep dive into this topic.

Over the next ten years, we expect the Chinese economy to change faster and create new avenues for wealth creation and GDP growth. Together with the Bank of China, Julius Baer remains committed to being ahead in understanding how wealth will be generated in China, and Asia more broadly, and sharing these insights with our clients.

IMPORTANT LEGAL INFORMATION BY BANK JULIUS BAER & CO. LTD.

This publication constitutes **marketing material** and is not the result of independent financial research. Therefore the legal requirements regarding the independence of financial research do not apply.

The information and opinions expressed in this publication were produced by Bank Julius Baer & Co. Ltd., Zurich, in cooperation with Bank of China Limited as of the date of writing and are subject to change without notice. This publication is intended **for information purposes only and does not constitute an offer,** a recommendation or an invitation by, or on behalf of, Julius Baer to make any investments. Opinions and comments of the authors reflect their current views, but not necessarily of other Julius Baer entities or any other third party.

Services and/or products mentioned in this publication may not be suitable for all recipients and may not be available in all countries. **Clients of Julius Baer are kindly requested to get in touch with the local Julius Baer entity in order to be informed about the services and/or products available in such country.**

This publication has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Before entering into any transaction, investors should consider the suitability of the transaction to individual circumstances and objectives. Any investment or trading or other decision should only be made by the client after a thorough reading of the relevant product term sheet, subscription agreement, information memorandum, prospectus or other offering document relating to the issue of the securities or other financial instruments. Nothing in this publication constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate for individual circumstances, or otherwise constitutes a personal recommendation for any specific investor. Julius Baer recommends that investors independently assess, with a professional advisor, the specific financial risks as well as legal, regulatory, credit, tax and accounting consequences. **Past performance is not a reliable indicator of future results. Performance forecasts are not a reliable indicator of future performance. The investor may not get back the amount invested.**

Although the information and data herein are obtained from sources believed to be reliable, no representation is made that the information is accurate or complete. Bank Julius Baer & Co. Ltd., Zurich, its subsidiaries and affiliated companies do not accept liability for any loss arising from the use of this publication. **This publication may only be distributed in countries where its distribution is legally permitted.** This publication is not directed to any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) such publications are prohibited.

Dubai International Financial Centre: this publication is distributed by Julius Baer (Middle East) Ltd. It may not be relied upon by or distributed to retail clients. Please note that Julius Baer (Middle East) Ltd. offers financial products or services only to professional clients who have sufficient financial experience and understanding of financial markets, products or transactions and any associated risks. The products or services mentioned will be available only to professional clients in line with the definition of the Dubai Financial Services Authority (DFSA) Conduct of Business Module. Julius Baer (Middle East) Ltd. is duly licenced and regulated by the DFSA.

Germany: Bank Julius Bär Europe AG, authorised and regulated by the German Federal Financial Supervisory Authority (BaFin), distributes this publication to its clients. This publication has been produced by Bank Julius Baer & Co. Ltd., Zurich, which is supervised by the Swiss Financial Market Supervisory Authority FINMA. Neither the legal requirements regarding the independence of investment research nor the prohibition of trading previous to the announcement of financial analyses do apply.

Hong Kong: this publication is distributed in Hong Kong by and on behalf of, and is attributable to Bank Julius Baer & Co. Ltd., Hong Kong branch, which holds a full banking licence issued by the Hong Kong Monetary Authority under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong SAR). The Bank is also a registered institution under the Securities and Futures Ordinance (SFO) (Chapter 571 of the Laws of Hong Kong SAR) to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities with Central Entity number AUR302. This publication must not be issued, circulated or distributed in Hong Kong other than to 'professional investors' as defined in the SFO. The contents of this publication have not been reviewed by any regulatory authority. If you have any queries concerning this publication, please contact your Hong Kong relationship manager. Bank Julius Baer & Co. Ltd. is incorporated in Switzerland with limited liability.

Indonesia: this publication is not intended to be an offer of or invitation to buy securities in Indonesia. This publication is also not intended to be the provision of investment advice in Indonesia. The securities referred to in this publication have not been registered with the Indonesian Financial Services Authority (OJK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market law and regulations.

Monaco: Bank Julius Baer (Monaco) S.A.M., an institution approved by the Minister of State for Monaco and the Bank of France, distributes to its clients this publication produced by Bank Julius Baer & Co. Ltd., Zurich, an institution in Switzerland under the supervision of the Swiss Financial Market Supervisory Authority FINMA.
Julius Baer Wealth Management (Monaco) S.A.M., an asset management company authorised in Monaco, distributes to its clients this publication produced by Bank Julius Baer & Co. Ltd., Zurich, an institution in Switzerland under the supervision of the Swiss Financial Market Supervisory Authority FINMA.

Singapore: this publication is available from Bank Julius Baer & Co. Ltd., Singapore branch, for accredited investors only. As Bank Julius Baer & Co. Ltd., Singapore branch, has a Unit exemption under Section 100(2) of the Financial Advisers Act, Cap. 110 of Singapore (the FAA), it is exempted from many of the requirements of the FAA, amongst others, the requirement to disclose any interest in, or any interest in the acquisition or disposal of, any securities or financial instruments that may be referred to in this publication. Further details of these exemptions are available on request. This publication has not been reviewed by and is not endorsed by the Monetary Authority of Singapore (MAS). Any document or material relating to the offer or sale, or invitation for subscription or purchase, of securities or investment funds (i.e. collective investment schemes) may not be circulated or distributed, nor may such securities or investment funds be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 or 304 respectively of the Securities and Futures Act, Cap. 289 of Singapore (the SFA), (ii) to a relevant person (which includes an accredited investor), or any person pursuant to Section 275(1A) or 305(2) respectively, and in accordance with the conditions, specified in Section 275 or 305 respectively of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. In particular, for investment funds that are not authorised or recognised by the MAS, units in such funds are not allowed to be offered to the retail public; any written material issued to persons as aforementioned in connection with an offer is not a prospectus as defined in the SFA and, accordingly, statutory liability under the SFA in relation to the content of prospectuses does not apply, and investors should consider carefully whether the investment is suitable for them. Please contact a representative of Bank Julius Baer & Co. Ltd., Singapore branch, with respect to any inquiries concerning this publication.
The word **'independent'** as used in this report does not mean that Bank Julius Baer & Co. Ltd. (the 'Bank'), or any asset manager or family office in Singapore which the Bank may associate with or have a connection to, is independent within the meaning of the Financial Advisers Act, Chapter 110 of The Statutes of the Republic of Singapore (including its subsidiary legislation and any directions, notices, codes and other guidelines issued from time to time by the relevant authority in Singapore). In particular, nothing in this report is to be construed or implied to mean that Bank Julius Baer & Co. Ltd., Singapore branch or any person(s) or organisation(s) referred to or described in this report (a) is able to clearly demonstrate that it does not have financial or commercial links with product providers that are capable of influencing its recommendations; (b) operates with objectivity and impartiality, and does not have any potential conflict of interest when recommending an investment product as a result of commercial or financial links with a product provider; (c) does not receive any commission or other benefit from any third party that is likely to create a bias in favour of a particular investment product, class of investment product or product provider; and (d) does not pay any commission or confer other benefit upon its representatives which may create product bias.

Switzerland: in Switzerland this publication is distributed by Bank Julius Baer & Co. Ltd., Zurich, authorised and regulated by the Swiss Financial Market Supervisory Authority FINMA.

The People's Republic of China: Bank Julius Baer & Co. Ltd., Hong Kong branch does not carry out business in the People's Republic of China (which for this purpose excludes the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan). This document is issued by Bank Julius Baer & Co. Ltd., Hong Kong branch which is a licensed bank regulated by the Hong Kong Monetary Authority and registered with the Hong Kong Securities Futures Commission for types 1, 4 and 9 regulated activities. It is not licensed or regulated by the China Securities Regulatory Commission or the China Banking Regulatory Commission. The information in this document does not constitute any specific investment advice on the capital markets of the People's Republic of China or an offer of securities or investment, tax, legal or other advice or recommendation or an offer to sell or an invitation to apply for any product or service of Bank Julius Baer & Co. Ltd. or any of its affiliates. This publication is for reference only and must not be used, or relied on, for purposes of any investment decisions; it is for intended recipients only, and must not be copied or distributed further.

United Arab Emirates: this publication has been produced by Bank Julius Baer & Co. Ltd., Zurich, and has not been approved or licensed by the UAE Central Bank, the UAE Securities and Commodities Authority or any other relevant authority in the UAE. It is strictly private and confidential and is being issued to a limited number of sophisticated individual and institutional investors upon their request and must not be provided to, or relied upon, by any other person.

United Kingdom: this publication has been produced by Bank Julius Baer & Co. Ltd., Zurich. It is a financial promotion for the purposes of Section 21 of the Financial Services and Markets Act 2000 (FSMA) and has been approved for distribution in the United Kingdom by Julius Baer International Limited, which is authorised and regulated by the Financial Conduct Authority (FCA). Rules made by the FCA under the FSMA for the protection of retail clients do not apply to services provided by members of the Julius Baer Group outside the UK and the Financial Services Compensation Scheme will not apply.

United States: NEITHER THIS PUBLICATION NOR ANY COPY THEREOF MAY BE SENT, TAKEN INTO OR DISTRIBUTED IN THE UNITED STATES OR TO ANY US PERSON.

This publication may contain information obtained from third parties, including ratings from rating agencies such as Standard & Poor's, Moody's, Fitch and other similar rating agencies. Reproduction and distribution of third-party content in any form is prohibited except with the prior written permission of the related third-party. Third-party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third-party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third-party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the market value of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

IMPORTANT LEGAL INFORMATION BY BANK OF CHINA LIMITED

This publication constitutes **marketing material** and is not the result of independent financial research. Therefore the legal requirements regarding the independence of financial research do not apply.

The information and opinions expressed in this publication were produced by Bank of China Limited and Bank Julius Baer & Co. Ltd., Zurich, as of the date of writing and are subject to change without notice. This publication is intended **for information purposes only and does not constitute an offer,** a recommendation or an invitation by, or on behalf of, Bank of China Limited to make any investments. Opinions and comments of the authors reflect their current views, but not necessarily of other Bank of China Limited entities or any other third party.

Services and/or products mentioned in this publication may not be suitable for all recipients and may not be available in all countries. **Clients of Bank of China Limited are kindly requested to get in touch with the local Bank of China Limited entity in order to be informed about the services and/or products available in such country.**

This publication has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Before entering into any transaction, investors should consider the suitability of the transaction to individual circumstances and objectives. Any investment or trading or other decision should only be made by the investor after a thorough reading of the relevant product term sheet, subscription agreement, information memorandum, prospectus or other offering document relating to the issue of the securities or other financial instruments. Nothing in this publication constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate for individual circumstances, or otherwise constitutes a personal recommendation for any specific investor.

Bank of China Limited recommends that investors independently assess, with a professional advisor, the specific financial risks as well as legal, regulatory, credit, tax and accounting consequences. **Past performance is not a reliable indicator of future results. Performance forecasts are not a reliable indicator of future performance. The investor may not get back the amount invested.**

Although the information and data herein are obtained from sources believed to be reliable, no representation is made that the information is accurate or complete. Bank of China Limited, its subsidiaries and affiliated companies do not accept liability for any loss arising from the use of this publication. **This publication may only be distributed in countries where its distribution is legally permitted.** This publication is not directed to any person in any jurisdiction where (by reason of that person's nationality, residence or otherwise) such publications are prohibited.

This publication may contain information obtained from third parties, including ratings from rating agencies such as Standard & Poor's, Moody's, Fitch and other similar rating agencies. Reproduction and distribution of third-party content in any form is prohibited except with the prior written permission of the related third-party. Third-party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third-party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third-party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the market value of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

JULIUS BAER GROUP
Head Office
Bahnhofstrasse 36
P.O. Box
8010 Zurich
Switzerland
Telephone +41 (0) 58 888 1111
Fax +41 (0) 58 888 1122
www.juliusbaer.com

BANK OF CHINA LIMITED
No. 1 Fuxingmen Nei Dajie,
Beijing, China, 100818
Telephone: (86) 10-6659 6688
Facsimile: (86) 10-6601 6871
Website: http://www.boc.cn

10.2014 Publ. No. PU00198EN