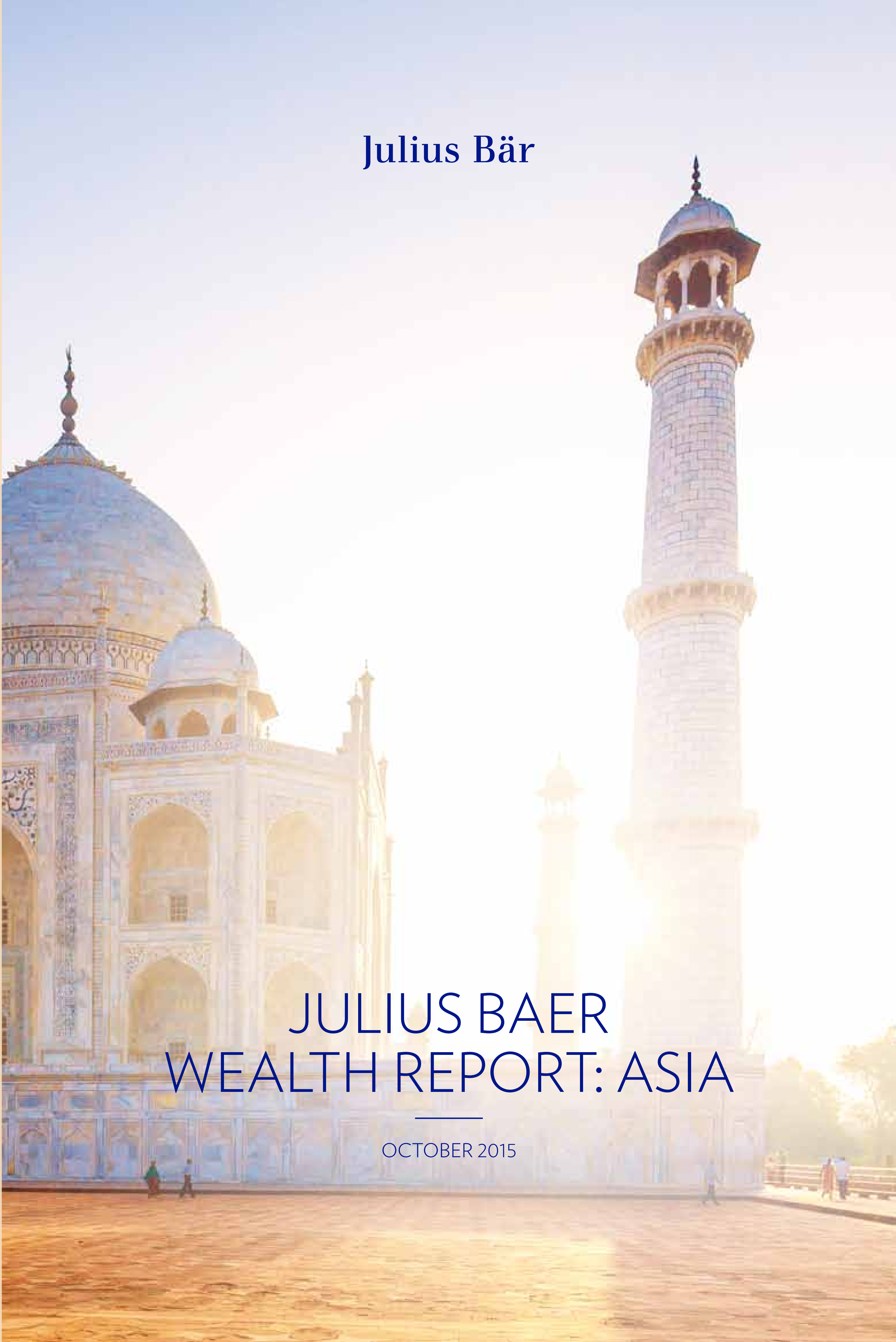
Julius Bär



JULIUS BAER WEALTH REPORT: ASIA

OCTOBER 2015

Front cover:
The Taj Mahal is a landmark historical building in India.

EDITORIAL

Dear Reader,

Welcome to the fifth edition of the Julius Baer Wealth Report: Asia.

We have experienced a year of volatility in Asian and global financial markets, with a potential cooling of the Chinese economy, and green shoots of growth in key markets such as India and Japan. We remain extremely confident that Asia will continue to be a long–term driver of growth. In previous editions, we have focused on China, a country we believe will remain a powerhouse despite recent market turbulence. In this edition of our fifth Wealth Report: Asia, we dedicate special focus sections to two of the most interesting markets at present – Japan and India.

As always, we monitor how our Julius Baer Lifestyle Index basket of goods and services and its composition has changed over the past year. This basket reflects a rate of inflation for Ultra High Net Worth (UHNW) Individuals and contains their key purchase goods and services. It therefore determines the requirements of any investment to 'keep them in a lifestyle to which they have become accustomed'.

For the first time since 2011, we revisit the growth of millionaires in Asia, and whilst we have tempered our optimism as to the rate of growth, there is still much reason to look to Asia as the greatest garden to grow millionaires.

We invite you to discover the insights shared in this fifth edition of the Julius Baer Wealth Report: Asia, and thank you for your interest.

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

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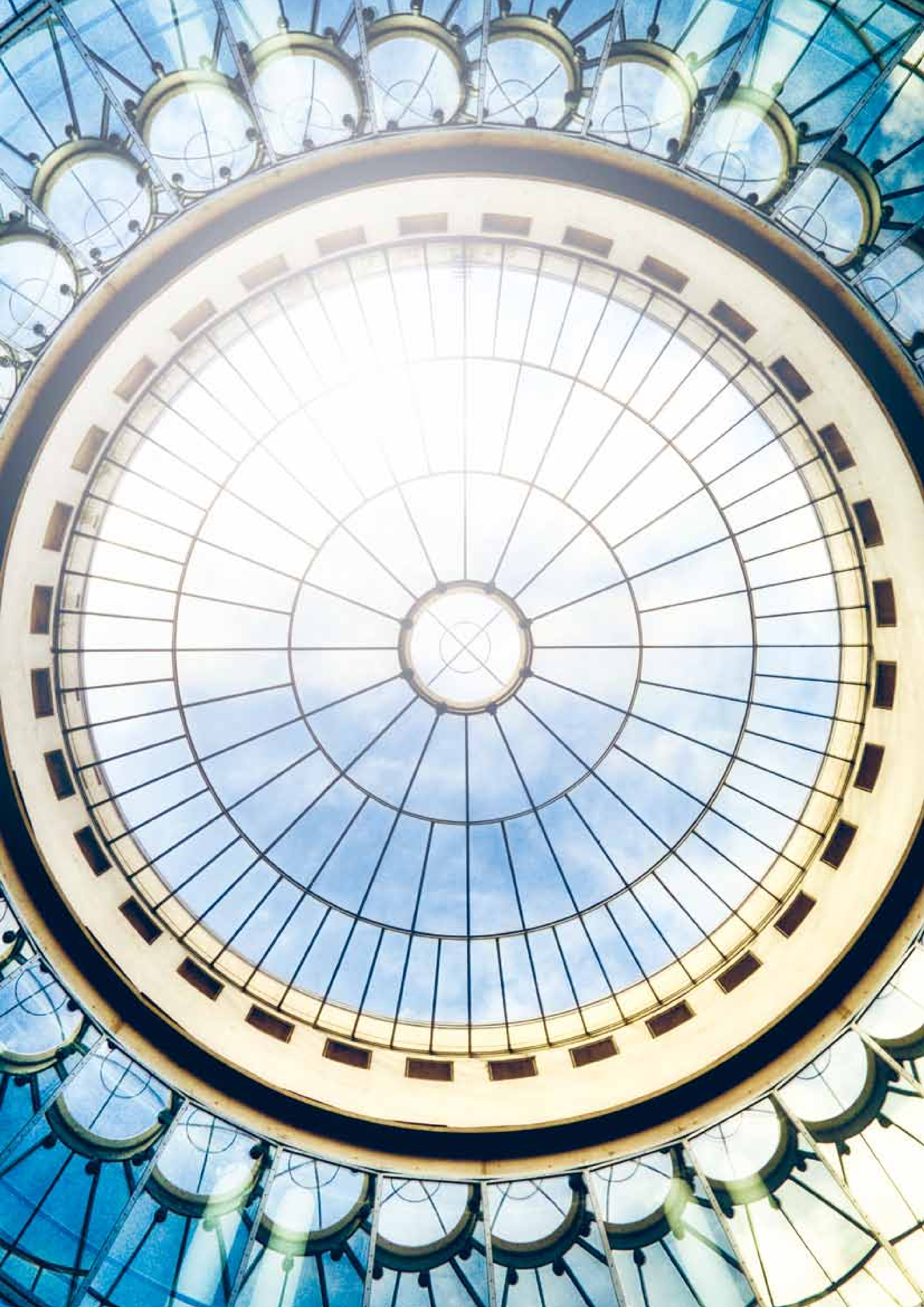


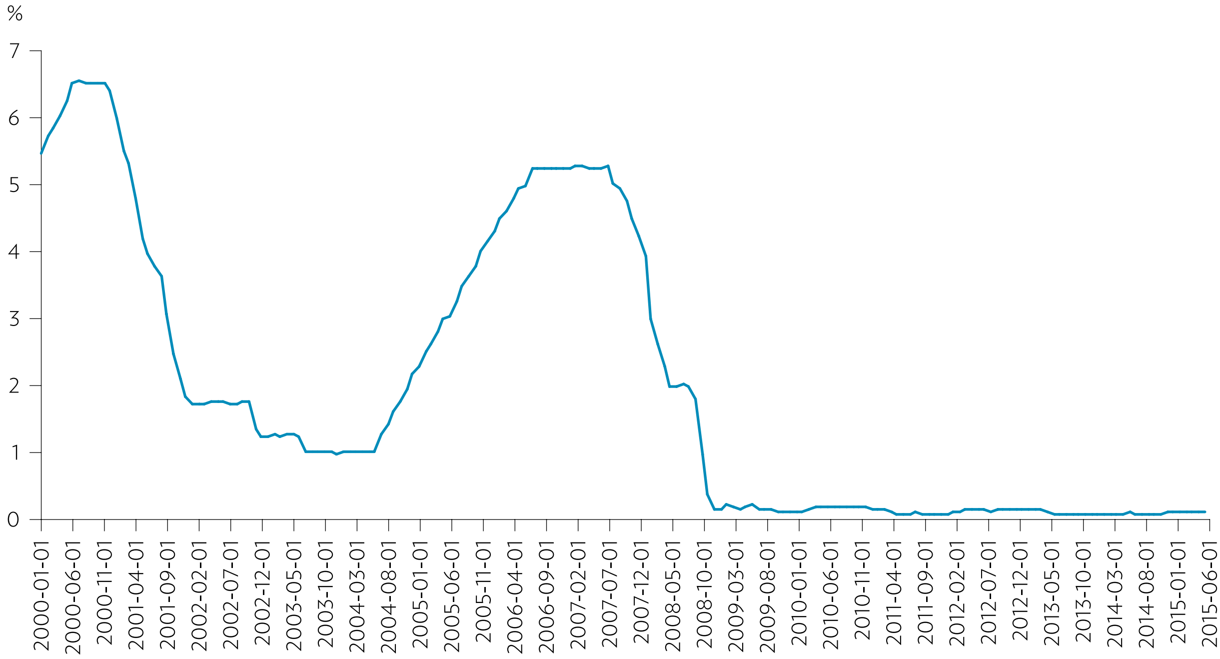
MACRO LANDSCAPE: OPTIMISM AND HOPE GRAPPLE WITH CHINA AND FINANCIAL MARKET VOLATILITY

Looking to the economic trend setters – US rate hike likely postponed into 2016

It has been six years since the recession ended officially in the US. The US economy has entered its seventh year of expansion but this recovery has been uneven. Bank Julius Baer forecasts US real gross domestic product (GDP) growth this year at 2.5%. We expect the growth rate to moderate to around 2.3% next year as headwinds such as weaker global demand and a strong dollar suggest that momentum peaked in the second quarter of this year and that the economy will head for a softer 2016. On a more positive note, the overall unemployment rate has fallen to 5.1% while wages and salaries for private sector workers are now rising at an annual rate of around 2.2% (as of June 2015). Five years ago, the annual percentage change in private sector compensation was 1.5%. The United States continues to have far better economic fundamentals now than other countries or regions in the world.

In the near term however, softer economic data and non-existent wage pressures have reduced the need for the US Federal Reserve to raise interest rates anytime soon. Bank Julius Baer now expects the first interest rate hike in 2016, possibly in the January 2016 meeting. By then, the international headwinds for economic growth may have eased as looser monetary policy and fiscal stimulus in China will start to manifest themselves in better economic indicators.

Chart 1: US Federal Funds Rate since 2000



Source: FRED Database, Federal Reserve Bank of St. Louis, Julius Baer

Inflation genie not (yet) out of the bottle

Despite many rounds of Quantitative Easing (QE) by major central banks around the world since 2009, inflation has remained benign. The United States led from the front with three rounds of quantitative easing. The Bank of Japan (BoJ) followed the Federal Reserve later with its own aggressive version of QE after the change of government in Japan in 2013 and this is still ongoing. The more recent round of QE by the European Central Bank (ECB, announced in January 2015) was done so as an insurance against the risk of economic and financial market turmoil in Europe. Taken together, there has been a relay QE race of sorts. Central banks have been careful not to flood the global economy and financial markets with simultaneous QE action while keeping financial markets flush with liquidity.

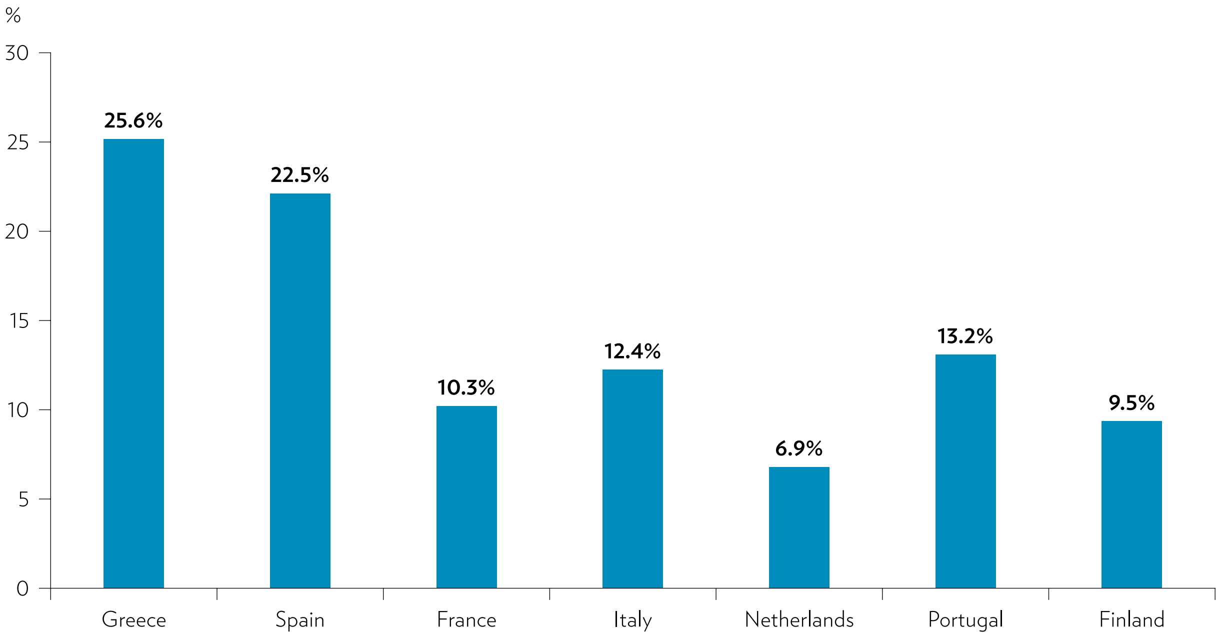
Notwithstanding, inflation has barely raised its head in the developed world. In fact, the spectre of deflation may even have persuaded ECB to launch its QE. Bank Julius Baer anticipates a substantial pick–up in inflation in the US and in the Eurozone next year. For example, our inflation forecast for the United States in 2016 is 1.8% vs. 0.1% in 2015. In the Eurozone, we anticipate inflation rising to 1.4% in 2016 from 0.6% in 2015. These would be viewed as welcome developments, given the mandate that these central banks are expected to fulfil. For now, the absence of a major inflation spike allows central banks in the West to maintain their ultra–accommodative monetary policies or to remove them gradually.

Accommodative policy to continue

Bank Julius Baer expects interest rate increases to occur mainly in the US and in the UK in the course of 2016 while staying steady in the Eurozone. Eurozone economies are embarked on their economic recovery. It is estimated that the Eurozone economy grew 0.4% in the second quarter in 2015, representing another upside surprise, lifted by improving domestic factors that should continue to contribute positively in the next few quarters.

Manufacturing Purchasing Manager Index (PMI) in the three major Eurozone economies – have been robust since the middle of this year, reaching 12 month highs in July, while the recovery in Spanish manufacturing has been ongoing since 2014.
At the same time, Eurozone unemployment rates remain elevated. Spain continues with its gradual improvement in the unemployment rate while the situation remains stagnant in Portugal, Italy and in France. Therefore we expect the ECB to keep interest rates steady throughout 2016.

Chart 2: Unemployment rates in Europe: Still elevated



Source: Eurostat, Unemployment rate (%) of select European economies as of May 2015. Data for Greece pertains to April and for Finland, it is June data, Julius Baer

While the world economy may look somewhat anaemic, it is expected to continue growing. Our forecast of global economic growth accelerating to 3.7% in 2016 represents our belief that the ultra–easy accommodative policies will finally begin to pay off.

Asia: a mixed bag

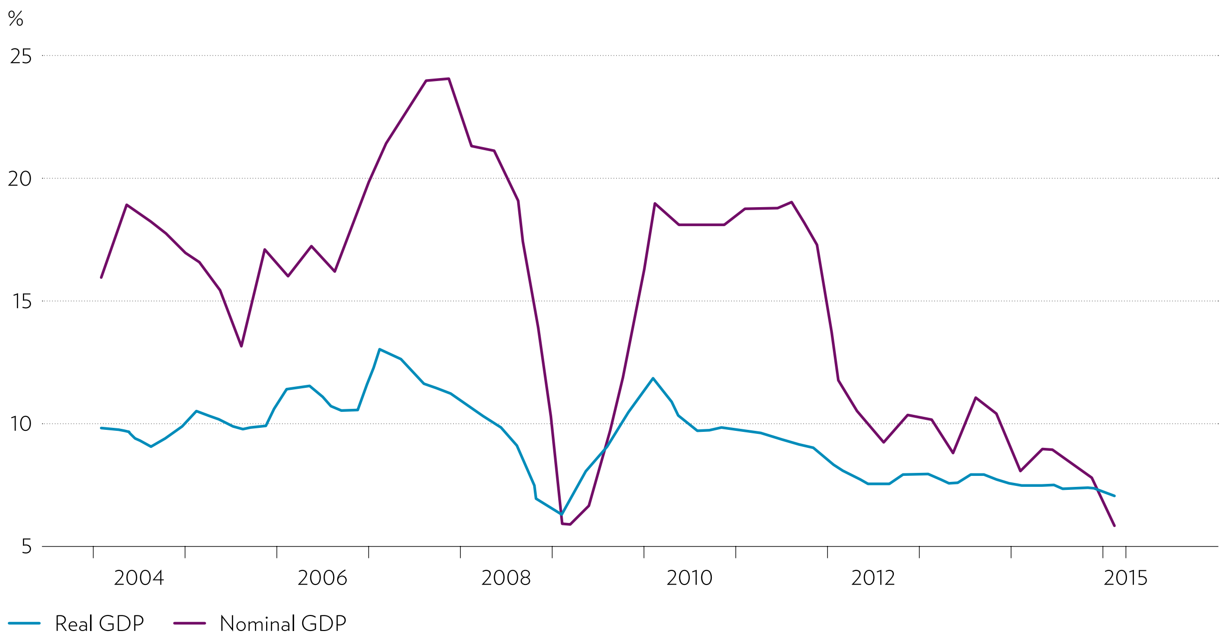
Much of the wealth creation in recent years in the world has been due to the steady growth rate in Asian economies and convergence of wealth and income levels in Asia with that of the West. For a brief period before the global crisis of 2008, India joined China in the great Asian catch–up story. After the crisis abated, the Indian economy resumed its growth spurt only to lose steam again. Its growth slowed sharply for the next three to four years from 2011 but the outlook has once again improved. Today, we have the highest growth forecast for India this year and next, among the Asian countries we track. This is why, in our special report on wealth creation in India, we expect the nation to put behind its economic growth and wealth creation disappointment of the first half of this decade, in the years ahead.

China: slowing growth

The outlook for Asian wealth creation remains closely tied to the outlook for China. Bank Julius Baer's growth forecasts reflect the belief and confidence that China has ample room to ease monetary and fiscal policy if the downturn persists thus allowing the government to stabilise the economy. We forecast real GDP growth rate of 6.7% this year and 6.3% next year in China. China has deep pockets with respect to foreign exchange reserves. It should be able to handle capital outflows which have been commented upon recently extensively in the media and elsewhere. In the meantime, the Chinese economic rebalancing continues with services and consumer spending contributing more to GDP growth in the second quarter than industry or construction.

A major risk to our growth outlook would be the large accumulated debts in China which are a burden to the economy. Historical experience globally is that once countries accumulate debt rapidly and to high levels, prospective economic growth slows sharply.

Chart 3: China year–on–year GDP growth



Source: National Bureau of Statistics, CEIC, Julius Baer

We project China's high net worth individuals (HNWI) wealth in 2020 will be more than triple the combined HNWI wealth of populous Indonesia and India, given the sheer economic size of Chinese wealth what happens to Asian wealth generation is critically and crucially dependent on the outlook for China's economic growth. If China is able to stabilise its economy, reduce dependence on investment and boost household incomes and consumption, we expect China's HNWI wealth to resume its rapid rise. We forecast that HNWI wealth in China will be around USD 8.25 trillion by the end of the decade.

Japan could surprise on the upside

For now, Japan is an important exception. Bank Julius Baer expects Japan's economic growth to accelerate to 1.9% in 2016 from 1.1% in 2015. We must point out that the Japanese government is much more optimistic, expecting growth rates of 1.5% and 2.7% respectively in 2015 and in 2016. If Abenomics revives not just Japanese inflation but also wages and economic growth, then Japan could help stabilise the Asian region and mitigate much of the short–to–medium growth and wealth generation risks that may arise from a slowdown in China growth. The Japan market is explored in depth in a dedicated section inside this report.

Other risks

The World Economic Outlook update published by the International Monetary Fund in July 2015 highlights some important risk factors to world growth. These include the impact of lower commodity prices on economic growth in low–income countries and a sharper–than–expected slowdown in China. In addition, the strength of the US dollar stressing balance sheets in emerging economies with high external debt could develop into a more serious issue and pose downside risks to wealth creation in Asia. In addition, geopolitical risks are ever present but these are difficult to model into our forecasts.

Chart 4: Important risk factors to world growth

RISKS TO GROWTH

Lower oil prices may still boost growth in advanced economies, but downside risks persist.

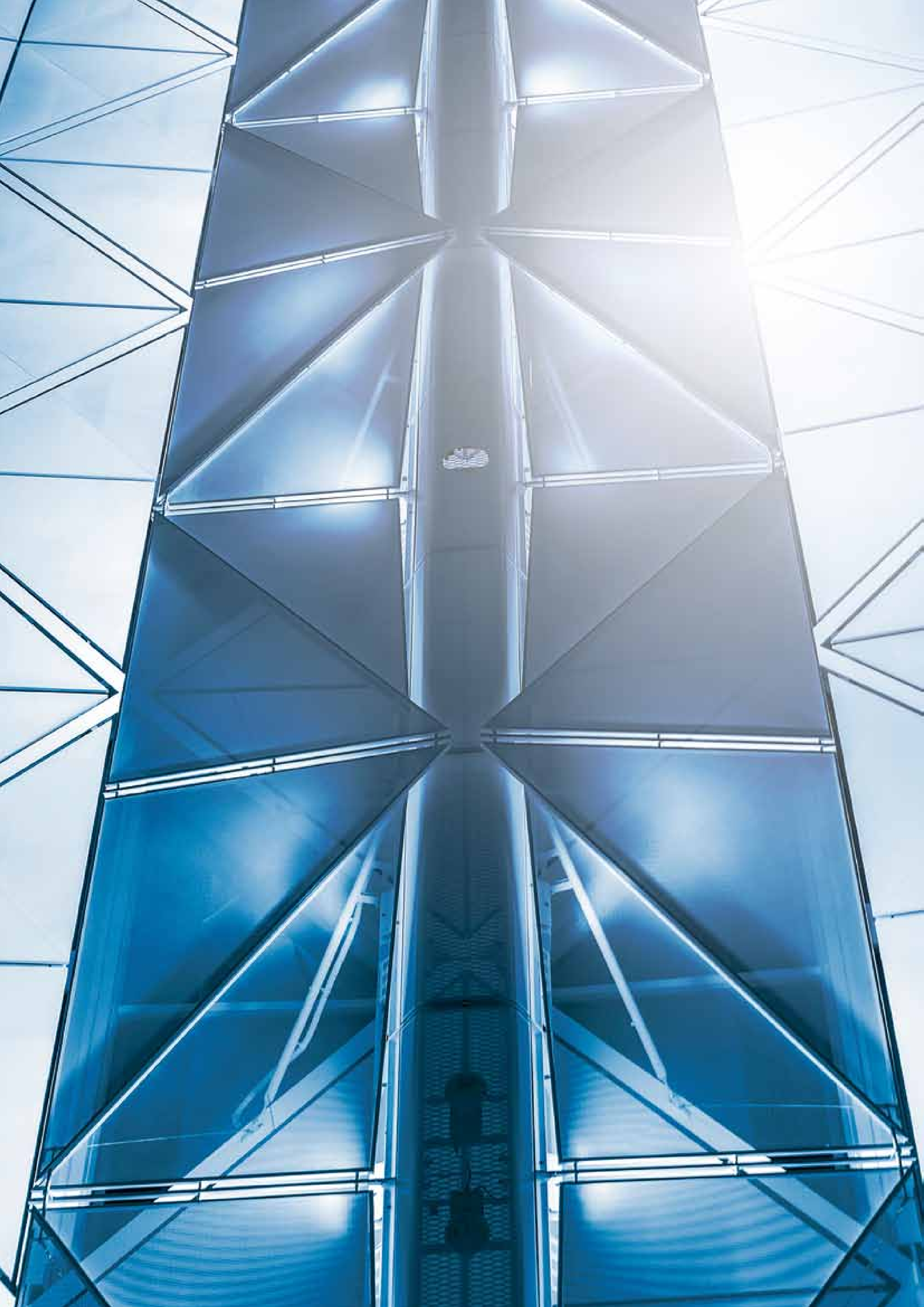
NEAR-TERM RISKS:

1. Increase in financial market volatility, including from Greece
2. Economic distress from geopolitical factors

MEDIUM-TERM RISKS:

1. Advanced economies not reaching full employment
2. Lower commodity prices undermining growth in low-income countries
3. Further U.S. dollar appreciation creating balance sheet challenges for dollar debtors
4. Sharper-than-expected slowdown in China

Source: World Economic Outlook Update, International Monetary Fund, July 2015, Julius Baer



OUTLOOK FOR HIGH NET WORTH INDIVIDUAL WEALTH IN ASIA

The outlook for Asian Wealth for 2015–2020

In our inaugural Wealth Report: Asia published in 2011, we set out to estimate the number of High Net Worth Individuals (HNWIs) and their wealth in a comprehensive top–down and bottom–up exercise. In this edition of the wealth report, we revisit our findings following events which have transpired since then.

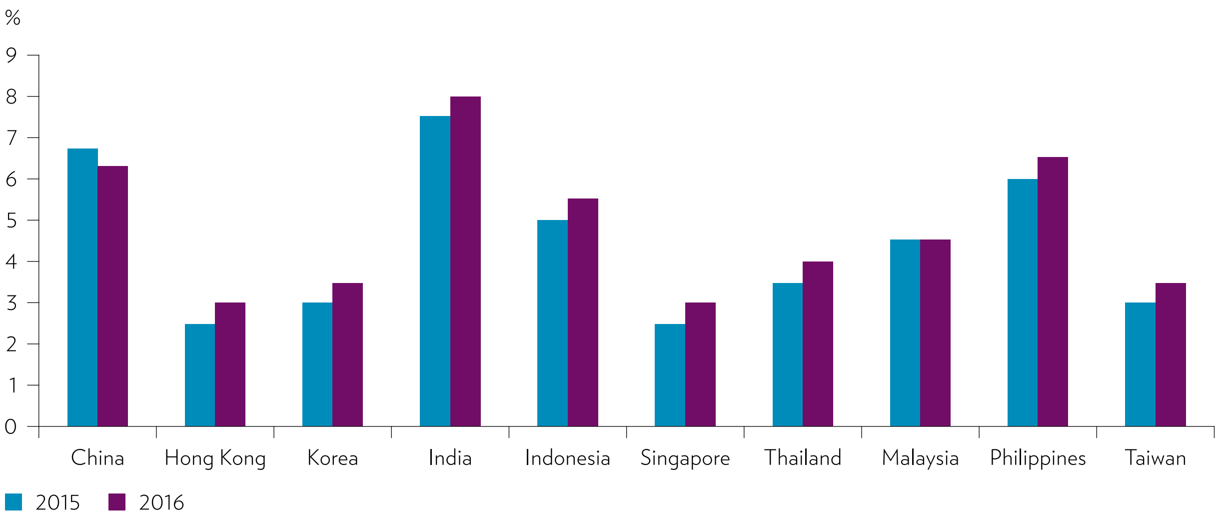
In the first half of this decade, Asian economies floundered after a strong rebound from the crisis–induced slowdown in 2008–09. Economic growth was brisk in 2010 in the region. Since then, economic momentum has decelerated. Nominal growth has become harder to come by. Our forecasts for economic growth this year and next (covered under 'Macro Landscape') reflect that slowdown. Stock markets too face greater uncertainties.

Growth prospects for Asia and Asian wealth in the coming years

The world is a different place than it was in 2010. Greece came back to the centre stage this year. China is in the middle of an economic transition with a range of possible outcomes even as it seeks to project power regionally. China's stock market gyrations in the last one year have been a spectacle for the world to behold. The decline in the market in June/July was as swift as the climb was spectacular as were the measures unleashed by the government, the central bank and the financial market regulator. However, that volatility in domestic stock markets have only limited implications, given the small exposure of households and limited role played by equity markets in corporate financing. We expect China GDP growth to be lower but stable at around 6.7% this year and 6.3% next.

It has been more than a year since India elected a new government. While the government inherited a challenging economic situation and has managed to stabilise macro–economic parameters, it is still fighting shy of major economic reforms to bring back sustainably high economic growth. Such a growth spurt, if sustained, would transform India's economy to an unimaginable extent, as China managed in a single generation. While we await policy moves that would make such an outcome possible, in our global economic growth tables, India figures right at the top among major nations. Indeed, among the countries that we monitor regularly, our growth forecasts of 7.5% and 8.0% for the current year and next are the highest.

Chart 1: Real GDP growth estimate for 2015 and forecast for 2016 (Year–on–year change)



Source: Julius Baer

On Japan, we are more optimistic than consensus for the return of economic growth in 2016. Our growth projection of 1.9% for 2016 stands in contrast to the projection made by the International Monetary Fund (IMF) that economic growth would be anaemic at 1.2% next year. We expect that 'Abenomics' will put the economy on a higher growth trajectory through a combination of monetary, fiscal and structural policies which will have important implications for wealth creation in the country.

We expect the global economy to grow around 3.1% this year. On balance, we expect softer GDP growth this year. Our view that economic growth picks up speed to 3.7% next year rests in our positive outlook for Asia, in particular, where we forecast GDP growth projections of around 5.5% this year and 5.6% next year and inflation of around 2.5%. This pace of nominal GDP growth of ~8% is much lower than the growth rates seen in the years immediately preceding and following the global crisis of 2008. Asia's growth slowdown since the crisis reflects the gradual deceleration in China's nominal GDP growth as it becomes a middle–income economy and partly India's growth wobbles too. Further they reflect a slower pace of structural economic and governance reforms in the region.

Estimating the wealth of HNWI

In this section, we confine ourselves to presenting the results of our wealth estimation exercise and commenting on them only briefly since the 'Macro Landscape' section discusses in detail the macro–economic background and prospects of the countries.

China: Strong wealth creation up to 2020

In the case of China, we project HNWI wealth at USD 5.1 trillion in 2016, rising to USD 8.25 trillion by 2020. Nominal GDP (in USD) is estimated at USD 16.9 trillion by the end of the decade. The ratio of HNWI wealth to nominal GDP rises from 43.5% in 2010 to 48.8% in 2020. Our projections of HNWI wealth are based on the assumptions of nominal GDP growth of around 10% between 2017 and 2020, boosted by expected appreciation of the Chinese currency versus the US dollar throughout the forecasting horizon. While the renminbi declines in 2015, the longer term outlook points to an appreciation trend.

Chart 2: China nominal GDP and HNWI wealth growth

China	2010	2011	2012	2013	2014	2015	2016E	2020E
Nominal GDP (USD billion)	6,039.7	7,492.4	8,461.6	9,490.6	10,360.1	10,380.8	10,967.3	16,912.9
Nominal GDP growth	–	24.1%	12.9%	12.2%	9.2%	0.2%	5.7%	9.9%
MSCI China – Investable Market Index, IMI (Annual Return)	–	–20.8%	23.1%	5.6%	7.1%	3.2%	4.5%	4.5%
Growth in HNWI Wealth	–	20.9%	18.1%	13.8%	10.9%	0.8%	6.8%	11.2%
HNWI Wealth (USD billion)	2,627.0	3,175.2	3,749.1	4,265.4	4,732.4	4,772.5	5,096.1	8,249.6
HNWI Wealth/Nominal GDP	43.5%	42.4%	44.3%	44.9%	45.7%	46.0%	46.5%	48.8%

Source: World Bank, MSCI, Oxford Economics, Julius Baer

India: Putting slowdown behind

In India, HNWI wealth suffered a slight contraction in 2011 and experienced slight to insignificant growth in the next two years. It stabilised in 2014 and is expected to rise this year and next. From a level of USD 949 billion in 2010, we project HNWI wealth of USD 1.425 trillion in 2016, rising to USD 2.3 trillion by 2020. Wealth to nominal GDP ratio is seen rising from 55.5% in 2010 to 64.1% in 2020. India's nominal GDP growth is projected to rise only by 3.2% this year but by 13.8% next. The sharp slowdown in nominal GDP growth is common across Asia for 2015, due to the depreciation of the local currency versus the US dollar. However, in the case of India, our forecasts reflect a weakening trend for the currency throughout the forecasting horizon. Thus, India's HNWI wealth in USD rises by 94% between 2014 and 2020 (versus 74% for China). If this trend persists for a decade or more, India will narrow the wealth and economic gap with China.

Chart 3: India nominal GDP and HNWI wealth growth

India	2010	2011	2012	2013	2014	2015	2016E	2020E
Nominal GDP (USD billion)	1,708.5	1,835.8	1,831.8	1,861.8	2,066.9	2,133.0	2,428.5	3,561.9
Nominal GDP growth	–	7.5%	–0.2%	1.6%	11.0%	3.2%	13.9%	9.4%
MSCI India – IMI (Annual Return)	–	–38.9%	27.3%	–5.3%	27.6%	3.9%	10.2%	10.2%
Growth in HNWI Wealth	–	0.0%	5.2%	0.6%	17.0%	4.1%	16.4%	11.8%
HNWI Wealth (USD billion)	949.0	948.8	998.4	1,004.7	1,175.4	1,223.7	1,425.0	2,282.1
HNWI Wealth/Nominal GDP	55.5%	51.7%	54.5%	54.0%	56.9%	57.4%	58.7%	64.1%

Source: World Bank, MSCI, Julius Baer

Indonesia: Near–term headwinds

Indonesian stock market performed well before the crisis and the trend continued in a muted fashion after the crisis too, with the exception of 2013. The current year is shaping up to be a bad one for stock market investors too. Further, the currency has been under pressure since 2013 due to a persistently high current account deficit, high inflation and worries over stagnation in economic growth. Real returns for Rupiah holders are not that high. All of these growth and wealth headwinds are reflected in our wealth estimate. Indeed, this year, US dollar GDP contracts significantly from 2014. Due to this sharp slowdown in nominal GDP in 2015, the US dollar value of Indonesian nominal GDP will be shy of USD 1 trillion up to 2018. HNWI wealth, which we estimated at USD 129 billion in 2010 will rise to little over USD 200 billion in 2020. The wealth to GDP ratio is seen rising from 17.1% in 2010 to 17.5% in 2020. Indonesia has scope to surprise on the upside, thanks to a reform–minded government.

Chart 4: Indonesia nominal GDP and HNWI wealth growth

Indonesia	2010	2011	2012	2013	2014	2015	2016E	2020E
Nominal GDP (USD billion)	755.1	893.0	917.9	910.5	888.5	754.4	808.7	1,160.1
Nominal GDP growth	–	18.3%	2.8%	–0.8%	–2.4%	–15.1%	7.2%	10.1%
MSCI Indonesia – IMI (Annual Return)	–	4.3%	4.2%	–24.5%	24.7%	–17.0%	3.8%	3.8%
Growth in HNWI Wealth	–	19.9%	3.7%	–5.7%	2.4%	–19.1%	8.2%	11.3%
HNWI Wealth (USD billion)	129.0	154.6	160.4	151.2	154.9	125.3	135.6	202.7
HNWI Wealth/Nominal GDP	17.1%	17.3%	17.5%	16.6%	17.4%	16.6%	16.8%	17.5%

Source: World Bank, MSCI, Oxford Economics, Julius Baer

Korea: Unspectacular but steady

Korean economic growth has been steady, if not spectacular, post–2008. Its currency appreciation has partially compensated for mediocre economic growth and stock market performance. This year, Korean nominal GDP is expected to contract nearly 10% due to an anticipated 14% weakness in the Korean won against the US dollar. Apart from that, the Korean won appreciation up to 2020 is expected to boost nominal GDP growth, stock market returns and hence, HNWI wealth. We estimate that Korean HNWI wealth has risen from USD 412 billion in 2010 to USD 540.2 billion by 2014. Further, we project that it would rise to just over USD 800 billion by 2020. The Wealth/GDP ratio will be at 41.4%, having risen from 37.6% in 2010.

Chart 5: Korea nominal GDP and HNWI wealth growth

Korea	2010	2011	2012	2013	2014	2015	2016E	2020E
Nominal GDP (USD billion)	1,094.5	1,202.5	1,222.8	1,305.6	1,410.4	1,270.8	1,414.7	1,962.2
Nominal GDP growth	–	9.9%	1.7%	6.8%	8.0%	–9.9%	11.3%	6.4%
MSCI Korea (Annual Return)	–	–11.8%	21.5%	4.2%	–10.7%	–7.6%	9.0%	9.0%
Growth in HNWI Wealth	–	7.9%	6.1%	7.9%	6.2%	–11.8%	13.6%	8.4%
HNWI Wealth (USD billion)	412.0	444.6	471.5	508.6	540.2	476.4	541.1	811.7
HNWI Wealth/Nominal GDP	37.6%	37.0%	38.6%	39.0%	38.3%	37.5%	38.3%	41.4%

Source: World Bank, MSCI, Oxford Economics, Julius Baer

Singapore: Restructuring challenges

Singapore and Hong Kong, being financially and economically open smaller city–states, have always had their trade balance and wealth ratios above 100%. After a burst of strong growth post–2008, Singapore has settled down into low single–digit nominal GDP growth and its currency has been either stable or slightly weaker against the US dollar in recent years. Economic restructuring rather than faster growth is the new mantra in Singapore. Growth in HNWI wealth suffers this year as is the case with many other countries. The Singapore dollar weakens by 12% versus US dollar as per our estimate in 2015. Again, as in the case of Korea, it is expected to appreciate boosting GDP growth in the years ahead. Singapore's HNWI wealth is seen rising to around USD 600 billion in 2020, up from USD 312 billion in 2010. The ratio of wealth to GDP rises correspondingly from 132% to just below 150% for the same interval.

Chart 6: Singapore nominal GDP and HNWI wealth growth

Singapore	2010	2011	2012	2013	2014	2015	2016E	2020E
Nominal GDP (USD billion)	236.4	275.4	289.9	302.2	307.9	278.4	294.9	403.2
Nominal GDP growth	–	16.5%	5.3%	4.2%	1.9%	–9.6%	5.9%	5.1%
MSCI Singapore – IMI (Annual Return)	–	–19.1%	33.4%	0.3%	2.2%	–6.0%	9.3%	9.3%
Growth in HNWI Wealth	–	13.3%	12.2%	4.5%	2.4%	–11.1%	8.0%	7.2%
HNWI Wealth (USD billion)	312.0	353.6	396.6	414.3	424.2	377.0	407.1	602.8
HNWI Wealth/Nominal GDP	132.0%	128.4%	136.8%	137.1%	137.8%	135.4%	138.1%	149.5%

Source: World Bank, MSCI, Oxford Economics, Julius Baer

Hong Kong: China holds the key

Currency effects play no role in our estimates for HNWI wealth in Hong Kong simply because we assume that the USD/HKD peg holds throughout the forecast horizon. In recent years, Hong Kong's stock index performance has been considerably better than that of Singapore's stock market index. Further, Hong Kong benefits from strong trade and economic linkages with China. Hence, it comes as no surprise that, even as its nominal GDP rises from USD 228.6 billion in 2010 to USD 325.3 billion by 2016, the HNWI wealth rises from USD 484 billion to USD 756.3 billion in the same period. It rises steadily further to USD 1 trillion by the end of the decade.

Chart 7: Hong Kong nominal GDP and HNWI wealth growth

Hong Kong	2010	2011	2012	2013	2014	2015	2016E	2020E
Nominal GDP (USD billion)	228.6	248.5	262.6	275.7	290.9	306.9	325.3	411.9
Nominal GDP growth	–	8.7%	5.7%	5.0%	5.5%	5.5%	6.0%	6.1%
MSCI Hong Kong (Annual Return)	–	–16.0%	28.3%	11.1%	5.1%	10.0%	4.6%	4.6%
Growth in HNWI Wealth	–	5.8%	11.6%	7.4%	6.7%	7.7%	7.2%	7.3%
HNWI Wealth (USD billion)	484.0	512.2	571.5	613.8	655.1	705.7	756.3	1,000.4
HNWI Wealth/Nominal GDP	211.7%	206.1%	217.6%	222.6%	225.2%	230.0%	232.5%	242.9%

Source: World Bank, MSCI, Julius Baer

Thailand: Conservative forecasts

Thailand's nominal GDP and HNWI wealth have been rather stagnant in the last four years. Thus far, increased government spending and gradually improving private investment have been insufficient to reinvigorate growth in the face of weak exports and private consumption. Nominal GDP contracted in dollar terms in 2014. It is expected to contract again this year, due to weakness in Thai baht. Growth of 4% in nominal GDP in local currency is reduced to –1.8% due to a 5.3% depreciation of the Baht against the US dollar. Throughout the forecast horizon, we expect the Thai baht to experience modest depreciation annually. If that turns out to be too pessimistic, then our HNWI wealth forecast too will turn out to have been low.

Chart 8: Thailand nominal GDP and HNWI wealth growth

Thailand	2010	2011	2012	2013	2014	2015	2016E	2020E
Nominal GDP (USD billion)	318.9	345.7	366.0	387.3	373.8	367.0	381.5	458.1
Nominal GDP growth	–	8.4%	5.9%	5.8%	–3.5%	–1.8%	4.0%	4.9%
MSCI Thailand IMI (Annual Return)	–	–3.2%	38.5%	–14.2%	18.8%	–9.1%	4.4%	4.4%
Growth in HNWI Wealth	–	8.1%	13.8%	3.2%	0.1%	–3.7%	5.0%	6.0%
HNWI Wealth (USD billion)	214.0	231.3	263.2	271.7	272.1	262.0	275.1	343.9
HNWI Wealth/Nominal GDP	67.1%	66.9%	71.9%	70.2%	72.8%	71.4%	72.1%	75.1%

Source: World Bank, MSCI, Oxford Economics, Julius Baer

Malaysia: Out of the woods

Recent political developments in Malaysia have cast near term uncertainty over its economic trajectory. However, over the longer term, we expect economic growth to be supported by investment growth from the Eleventh Malaysia Plan (11MP) which covers 2016–20 and the Economic Transformation Programme. In addition, private consumption is expected to remain a key driver of economic growth. The currency is expected to gain against the US dollar for five years from 2016, after the slump this year, aided by a surplus in the current account and steady economic growth. On that basis, we have projected Malaysia's HNWI wealth to rise to USD 308 billion by the end of the decade.

Chart 9: Malaysia nominal GDP and HNWI wealth growth

Malaysia	2010	2011	2012	2013	2014	2015	2016E	2020E
Nominal GDP (USD billion)	247.5	289.3	305.0	313.2	326.9	298.2	339.4	489.4
Nominal GDP growth	–	16.9%	5.4%	2.7%	4.4%	–8.8%	13.8%	8.0%
MSCI Malaysia IMI (Annual Return)	–	–0.4%	14.1%	8.1%	–10.6%	–8.7%	6.5%	6.5%
Growth in HNWI Wealth	–	17.5%	8.4%	4.4%	2.5%	–10.9%	15.7%	9.6%
HNWI Wealth (USD billion)	143.0	168.0	182.2	190.2	194.9	173.7	200.9	307.9
HNWI Wealth/Nominal GDP	57.8%	58.1%	59.7%	60.7%	59.6%	58.2%	59.2%	62.9%

Source: World Bank, MSCI, Oxford Economics, Julius Baer

Philippines: Success story continues

The Philippines has been a notable success story. Blessed with some good governance, Philippine economic growth stabilised and accelerated. The currency strengthened and the Philippine stock market performed creditably. All of these have combined to help us project a doubling of HNWI wealth in the Philippines by 2016 to USD 121.6 billion from around USD 60.0 billion in 2010. Throughout the forecast period up to 2020, we expect a healthy nominal GDP growth forecast of over 10% in USD terms, aided mildly by an expected appreciation of the Philippine peso against the US dollar. Projections of stock market returns too are brisk. How much of good news remains to be priced into Philippine stocks is an interesting question.

Chart 10: Philippines nominal GDP and HNWI wealth growth

Philippines	2010	2011	2012	2013	2014	2015	2016E	2020E
Nominal GDP (USD billion)	199.6	224.1	250.2	272.1	284.6	308.0	345.7	512.3
Nominal GDP growth	–	12.3%	11.6%	8.7%	4.6%	8.2%	12.3%	9.9%
MSCI Philippines IMI (Annual Return)	–	–2.0%	47.6%	–6.5%	26.8%	1.4%	10.2%	10.2%
Growth in HNWI Wealth	–	12.4%	21.6%	7.8%	10.1%	8.8%	14.8%	12.3%
HNWI Wealth (USD billion)	60.0	67.4	82.0	88.4	97.4	106.0	121.6	196.8
HNWI Wealth/Nominal GDP	30.1%	30.1%	32.8%	32.5%	34.2%	34.4%	35.2%	38.4%

Source: World Bank, MSCI, Oxford Economics, Julius Baer

Taiwan: Nurturing wealth gains

In recent years, Taiwan economic growth has been modest but steady. The trend is expected to continue this year and next as is the growth in HNWI wealth, notwithstanding the anticipated slight weakness in the currency this year (3.5% depreciation against the US dollar as per our forecast). From 2016, the Taiwan currency is expected to post steady gains versus the US dollar. Improvement in economic relations with China has been a positive factor for Taiwan in the last few years.

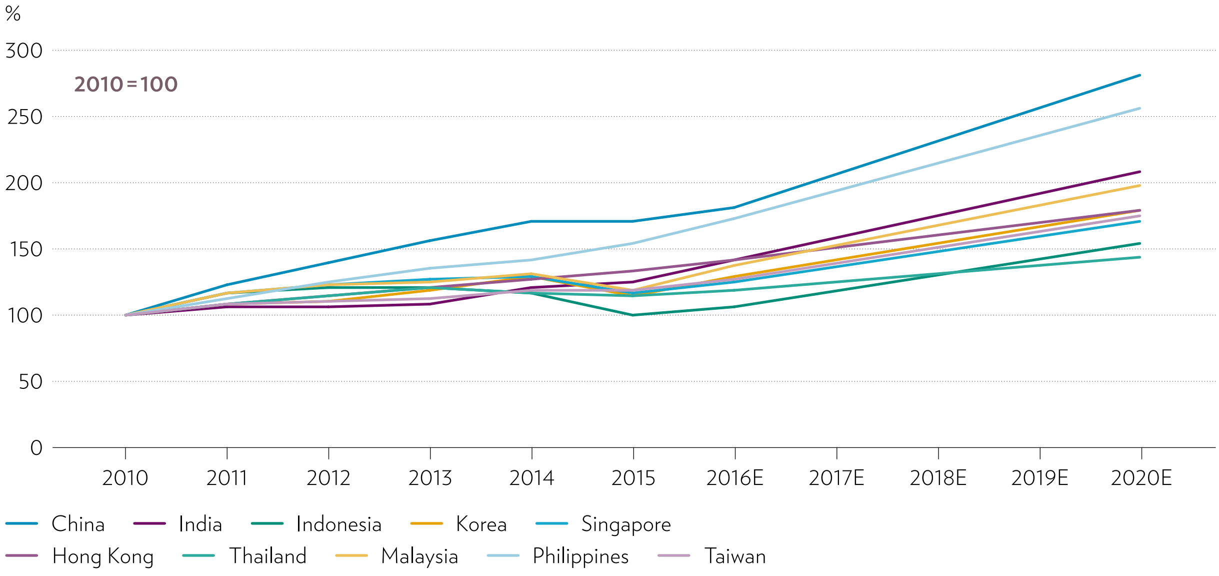
Chart 11: Taiwan nominal GDP and HNWI wealth growth

Taiwan	2010	2011	2012	2013	2014	2015	2016E	2020E
Nominal GDP (USD billion)	428.2	465.2	475.3	489.2	513.7	510.8	549.4	754.8
Nominal GDP growth	–	8.6%	2.2%	2.9%	5.0%	–0.6%	7.6%	8.2%
MSCI Taiwan (Annual Return)	–	–20.9%	16.7%	9.1%	9.4%	–2.7%	7.8%	7.8%
Growth in HNWI Wealth	–	4.8%	5.6%	4.9%	7.1%	–1.1%	9.4%	10.0%
HNWI Wealth (USD billion)	269.0	281.9	297.7	312.1	334.2	330.5	361.6	532.5
HNWI Wealth/Nominal GDP	62.8%	60.6%	62.6%	63.8%	65.1%	64.7%	65.8%	70.5%

Source: World Bank, MSCI, Oxford Economics, Julius Baer

There are large differences in numbers in the above tables given different starting levels, dictated by the relative sizes of their economies. Hence, we converted them into index values with the HNWI wealth in 2010 representing a base value of 100. Despite its maturing economy, China's HNWI will nearly treble by 2020, as per our projections. India is in the third place while Philippines is in the second place in terms of the rise in HNWI wealth as the Philippine currency adds almost a % every year on average for the next five years whereas the forecast for USD/INR envisages a 3% annual depreciation every year.

Chart 12: HNWI wealth (2010=100)



Source: Julius Baer

Relative prospects are brighter in Asia

On balance, our projections of HNWI wealth are somewhat moderate. We recognise that, post–global crisis of 2008, the centre of gravity of global economic activity has not shifted east as much as one expected in its immediate aftermath. Both restructuring efforts and the burden of past debt are weighing down on growth in China and to some extent in India too. The sustained decline in commodity prices has not yet boosted economic activity in the region as much as it should have, based on past trends. Further, Asian economies – from tiny Singapore to mighty China and medium India – do face their own inequality challenges both in income and wealth. Therefore, policy is likely to be sensitive to criticism that economic growth and wealth generation are top–heavy. That said, the thought that we would like to leave our readers with, is this: Asia remains the best relative bet on economic growth and wealth creation in the years ahead.

THE JULIUS BAER LIFESTYLE INDEX

Luxury living in Asia

The first Julius Baer Wealth Report: Asia in 2011 introduced the Julius Baer Lifestyle Index comparing eighty data points. These covered 20 prices of goods and services over 4 key cities of Hong Kong, Singapore, Mumbai and Shanghai. In 2013 we expanded the city set to include Jakarta, Kuala Lumpur, Taipei, Bangkok, Manila, Seoul and Tokyo, allowing the Julius Baer Lifestyle Index to offer much more comprehensive insights into the cost of living for the region's high net worth individuals.

In addition to the expanded range of cities, we now have the opportunity for many goods and services to explore their historical price changes over the past 5 years.

Comparing the cities on items within the Index we can also identify which cities in this report are the most expensive for goods, services and overall. We have our most expensive and best bargain cities identified clearly for the first time.

Within the Julius Baer Lifestyle Index, it is our intention to construct a basket of goods and services that closely reflects the lives of High Net Worth Individuals (HNWI) in Asia. With some exceptions, all of the prices that build the index have both local and international supply and demand drivers. A departure from this situation is the case of legal fees. If you live in a particular jurisdiction and need the service that has the licence to practice where you live, the international supply and demand for legal services has little or no impact on the cost.

This is a feature of the non–tradable sector in any economy, and the logic applies to many day–to–day items such as hairdressing or the fee that you might pay for 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 purchase non–tradable items. For example, an UHNWI from Hong Kong may choose to travel to Manila or Taipei to take advantage of high–end (and lower cost) dental and health care costs. In essence the Julius Baer Lifestyle Index forms a starting point for a broader analysis of how living in luxury in Asia is changing.

We have also taken a moment in this fifth edition of the Julius Baer Wealth Report: Asia to speculate about the items of the basket of the future. Whilst the items in the basket were selected to reflect the lives of the UHNW in Asia at this time, we hypothesise that some of the items could be changed not just within their category, but by new items in the sector in the future. Therefore we have included a dedicated editorial looking at 'The basket of the future' in this edition.

The original index and beyond

For the sake of continuity with previous editions of this report we continue to present the data of the index in its original form (four cities) and continued data from the expanded index (11 cities). Standard inflation across Hong Kong, Singapore, Mumbai and Shanghai during the data collection period was 3.5%. In comparison the Julius Baer Lifestyle Index for these four cities was 1.77% over the same period, in US dollar terms. For the expanded index, the inflation rate is 3.02% over the same period, whilst the index is 0.42%. Hence the special Consumer Price Index (CPI) of luxury products and services actually rise less than conventional measures of inflation.

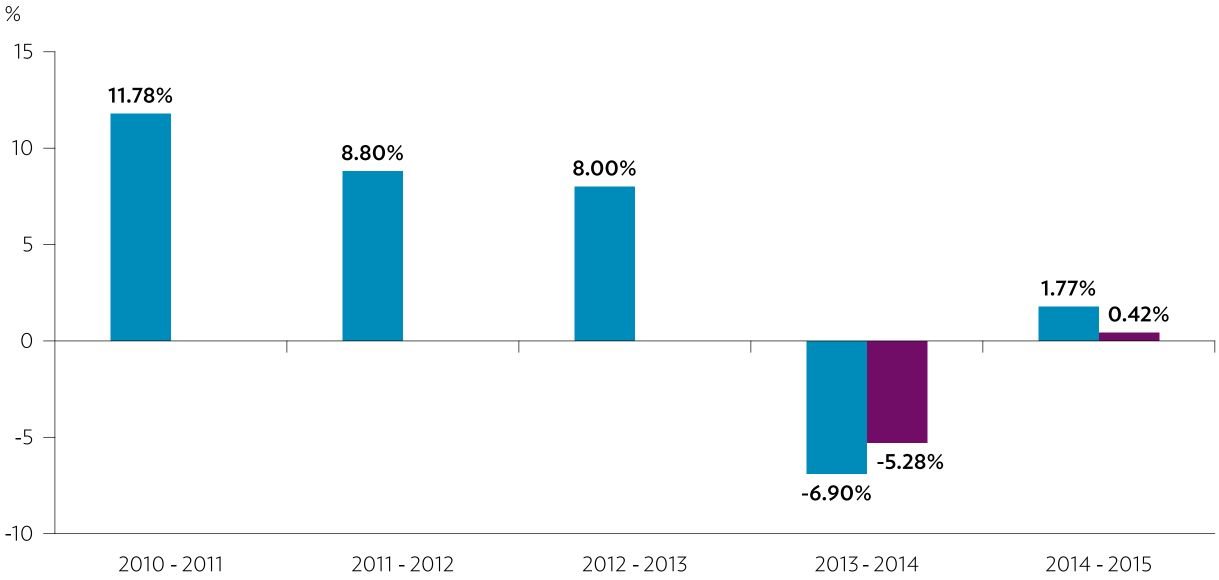
Changes in prices of goods and services covered by the index

The 2014–2015 data collection period experienced seemingly significant swings in our luxury goods and services basket. The biggest changes were experienced in the wine and handbag areas. If we look at Chart 2 the price increases of the Julius Baer Lifestyle Index items and one can compare them to their historical 5 year average ascertained after 5 years of data monitor.

It is clear that wine has hit the bottom of the barrel, with the largest shift in the index, and against the historical trend of approximately 4% increase year–on–year. In the heat map of change in the Julius Baer Lifestyle Index (Chart 3) we see that in all markets where the wine could be located, all markets are down. This is also the case for the ladies handbag, which is down everywhere potentially because of slowing economic growth.

Fourteen out of the twenty items observed had positive increases this year. However only six of these had changes higher than the average rate of inflation in our expanded index. There is certainly a lot of movement of prices within different markets and we see from the heat map that the biggest variability exists in business class flights, residential property, hotel suites, golf club memberships, jewellery and the cigar categories. Many of these items are priced by service with trends such as oil prices, tourism acting as underlying drivers.

Chart 1: Julius Baer Lifestyle Index, changes in prices of goods and services year–on–year, 2010 to 2015, USD terms

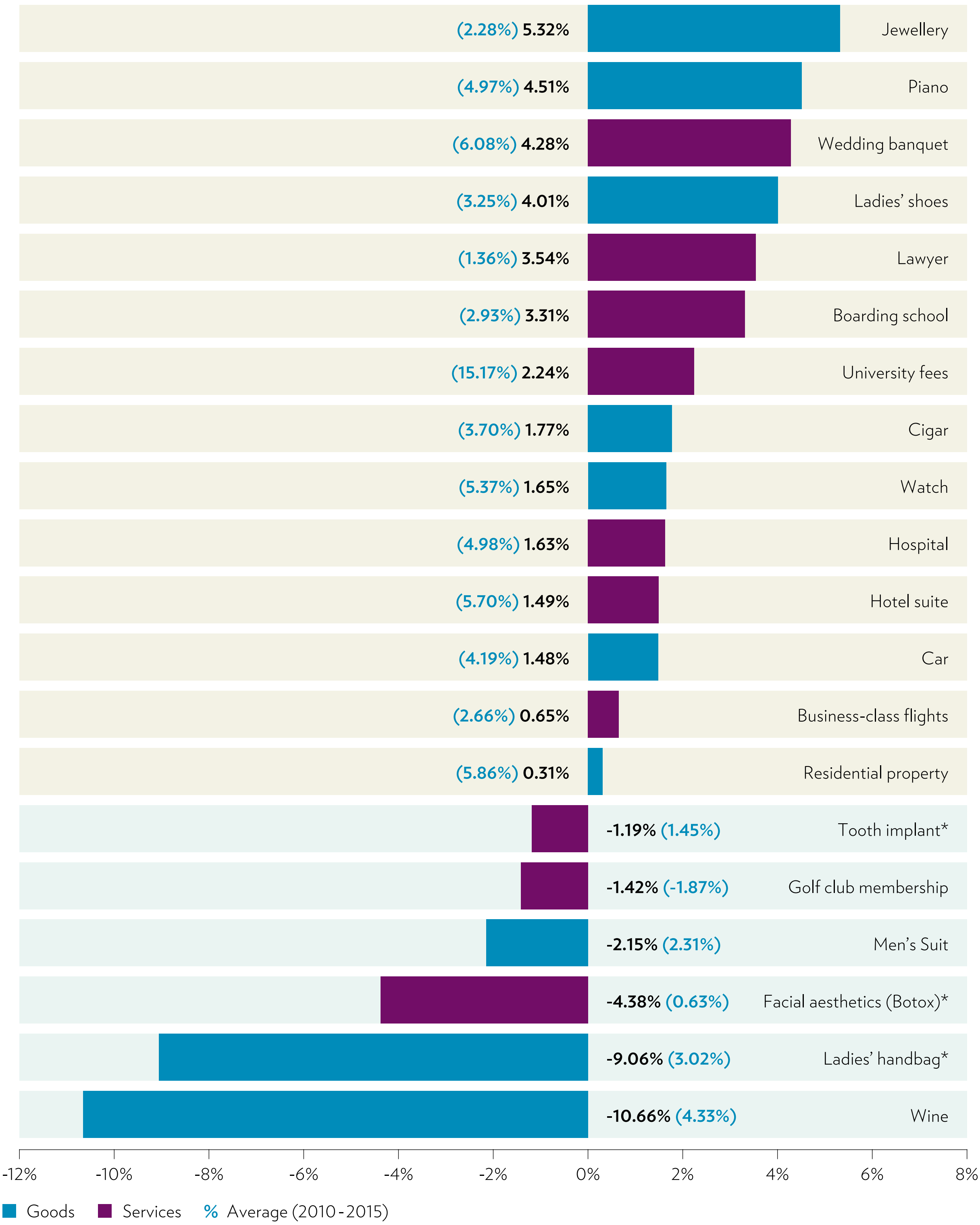


Julius Baer Lifestyle Index original, USD terms, in Hong Kong, Singapore, Shanghai and Mumbai

Julius Baer Lifestyle Index expanded, USD terms, in Hong Kong, Singapore, Shanghai, Mumbai, Jakarta, Kuala Lumpur, Taipei, Bangkok, Manila, Seoul and Tokyo

Source: Ipsos, Julius Baer

Chart 2: Price increases of Julius Baer Lifestyle Index items, y/y USD terms



* these items have been redefined during the data collection period.
Source: Ipsos, Julius Baer

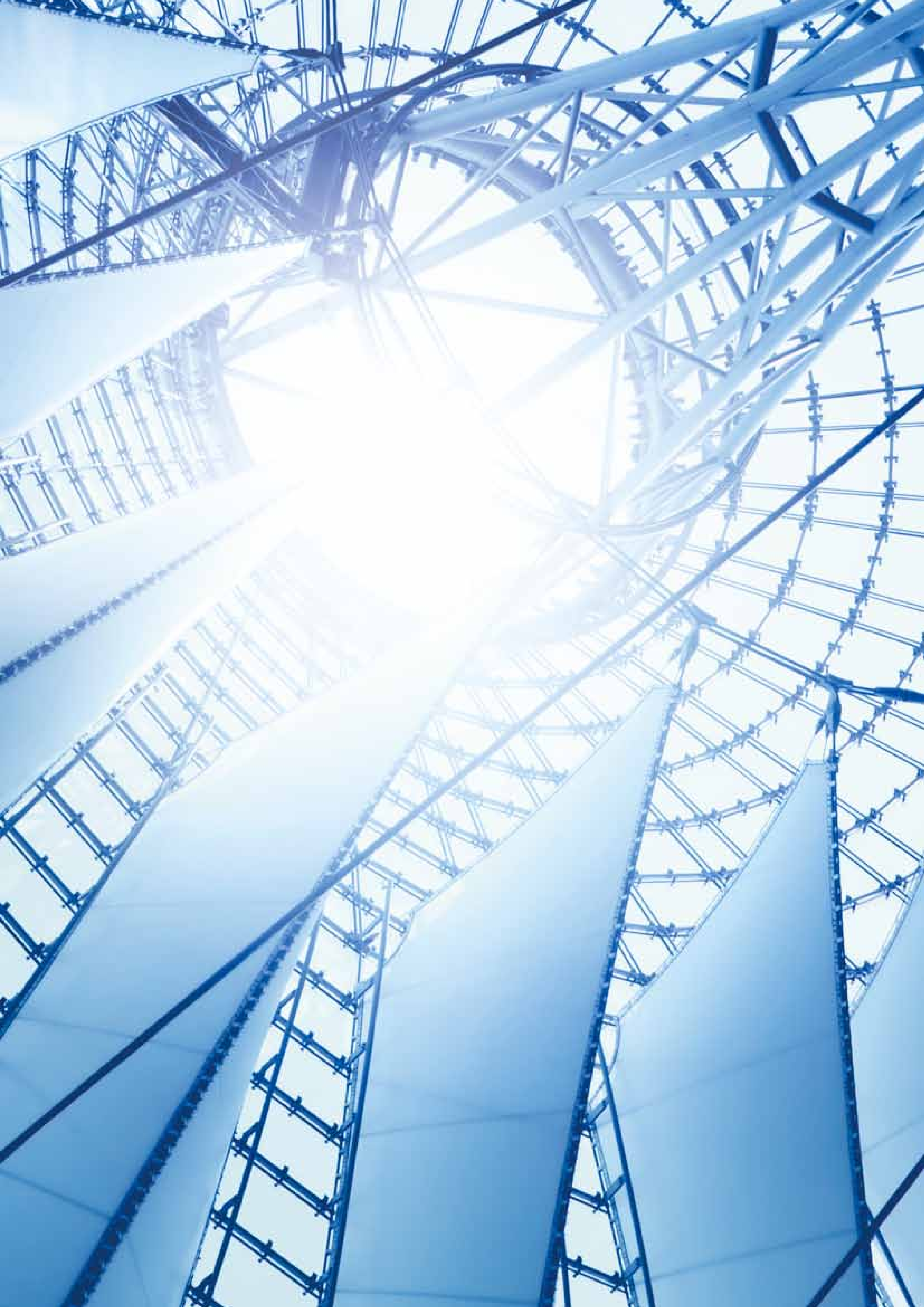


Chart 3: Julius Baer Lifestyle Index cost change (in %, 2015 vs 2014 cost), in local currency terms

	Business-class flights	Residential property	Wedding banquet	Hotel suite	Tooth implant	Hospital	Golf club membership	Lawyer	Watch
Hong Kong	1%	17%	5%	–5%	0%	1%	0%	0%	0%
Singapore	–3%	0%	4%	5%	4%	4%	–4%	7%	0%
Shanghai	2%	15%	6%	–16%	4%	0%	0%	9%	–8%
Mumbai	20%	–9%	5%	4%	–8%	–4%	11%	5%	6%
Taipei	12%	–5%	7%	–5%	0%	0%	–4%	0%	4%
Jakarta	1%	–5%	–4%	10%	–10%	7%	0%	10%	2%
Manila	–11%	0%	3%	15%	0%	4%	2%	9%	10%
Seoul	9%	5%	–8%	2%	–7%	–1%	–7%	10%	–4%
Kuala Lumpur	–8%	–8%	10%	–8%	4%	0%	–9%	–5%	3%
Bangkok	–8%	0%	2%	21%	0%	6%	0%	–7%	–3%
Tokyo	–9%	–6%	16%	–6%	0%	0%	–3%	0%	7%

Source: Ipsos, Julius Baer

Where the outliers lie

In last year's heat map there was an abundance of 'outliers', big price changes in categories, well beyond the rate of inflation. For our purpose, anything over a 10% is worthy of more attention. Comparing the heat map of last year to this year one notices that there are less outliers this year than last. Last year nearly 50% of the 220 items tracked had significant changes (10% increase or decrease in price). This year 20% of the items experienced significant shifts. This implies that while luxury goods and services pricing remains very sensitive to the economic cycle, the variable of changes has narrowed.

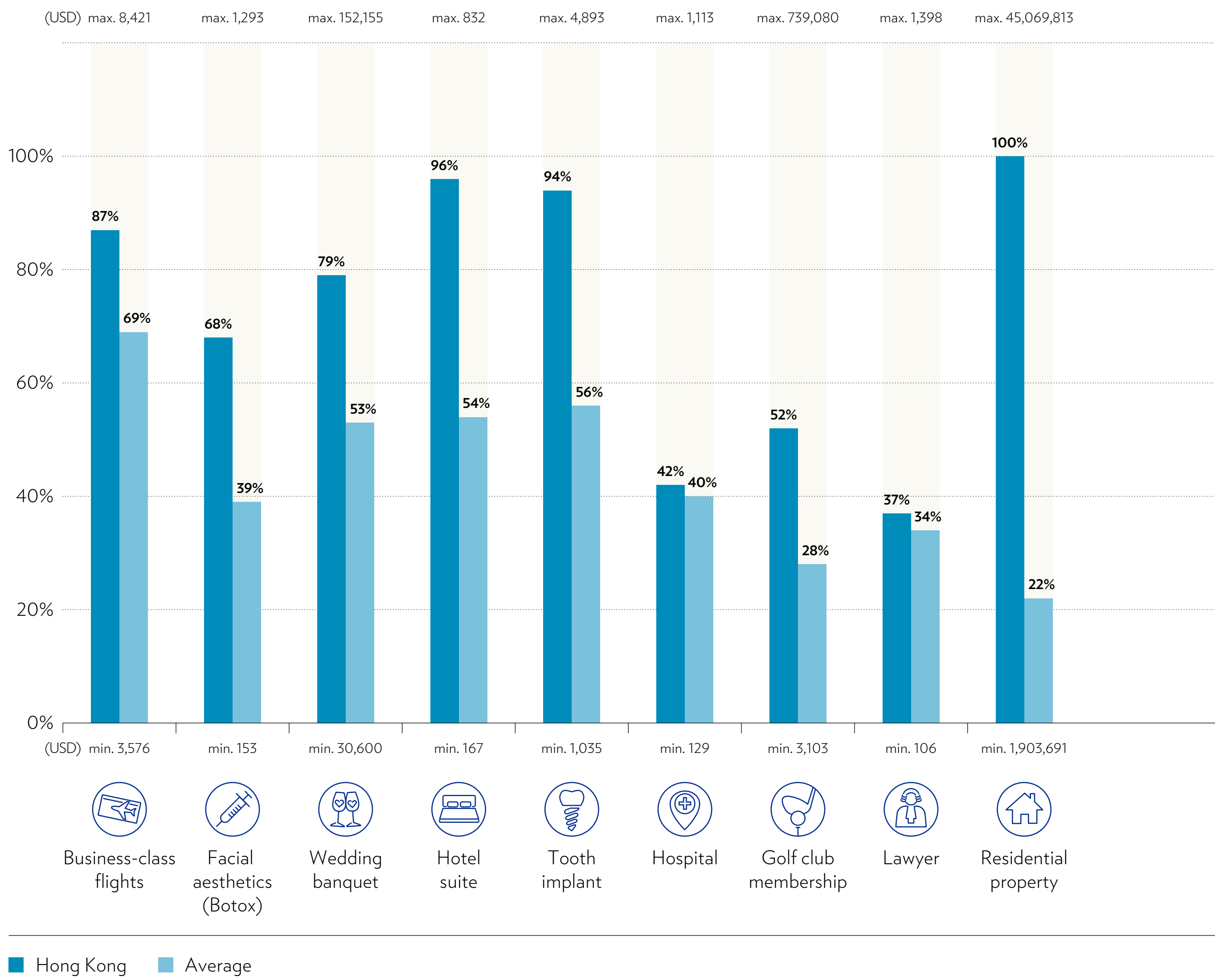
Ladies' handbag	Wine	Jewellery	Men's suit	Facial aesthetics (Botox)	Piano	Car	Cigar	Ladies' shoes	University	Boarding school
–21%	–25%	4%	9%	0%	0%	6%	6%	–4%	2%	3%
–6%	–11%	23%	–11%	1%	4%	0%	–10%	11%	2%	3%
–11%	–25%	–14%	9%	–6%	–4%	0%	0%	–7%	2%	3%
–9%	–30%	–4%	–2%	–9%	18%	12%	–10%	9%	2%	3%
0%	–7%	17%	1%	–8%	5%	0%	27%	–3%	2%	3%
–10%	0%	0%	–9%	0%	1%	–24%	11%	8%	2%	3%
–8%	0%	0%	–4%	–11%	4%	28%	–9%	7%	2%	3%
–13%	–10%	–20%	–6%	–9%	17%	–13%	8%	2%	2%	3%
–5%	0%	14%	–2%	–7%	6%	1%	–4%	10%	2%	3%
–7%	0%	25%	–1%	0%	–1%	3%	0%	0%	2%	3%
–9%	–9%	14%	–8%	0%	0%	3%	0%	10%	2%	3%

City comparisons

The following charts for each city are designed for direct market comparison. For each city the Lifestyle Index components are divided into goods and services, as we maintain that there are distinct supply and demand dynamics that govern these two categories. We have excluded education items in these charts as they are set on an international basis with only variation being driven by the exchange rate.

The charts are constructed in US dollar terms, making our eleven cities comparable. The values across the top of the charts represent the maximum price level across the cities, with the minimum value at the bottom of the chart, thereby capturing total range of outcomes for each index item. The 'average position' of the data point is represented as a percentage, so as to standardise the data. The city value in percentage informs the reader how far above or below the average the price of an item in a particular city is relative to the average across the eleven cities in Asia.

Chart 4: Julius Baer Lifestyle Index – Hong Kong



Source: Ipsos, Julius Baer

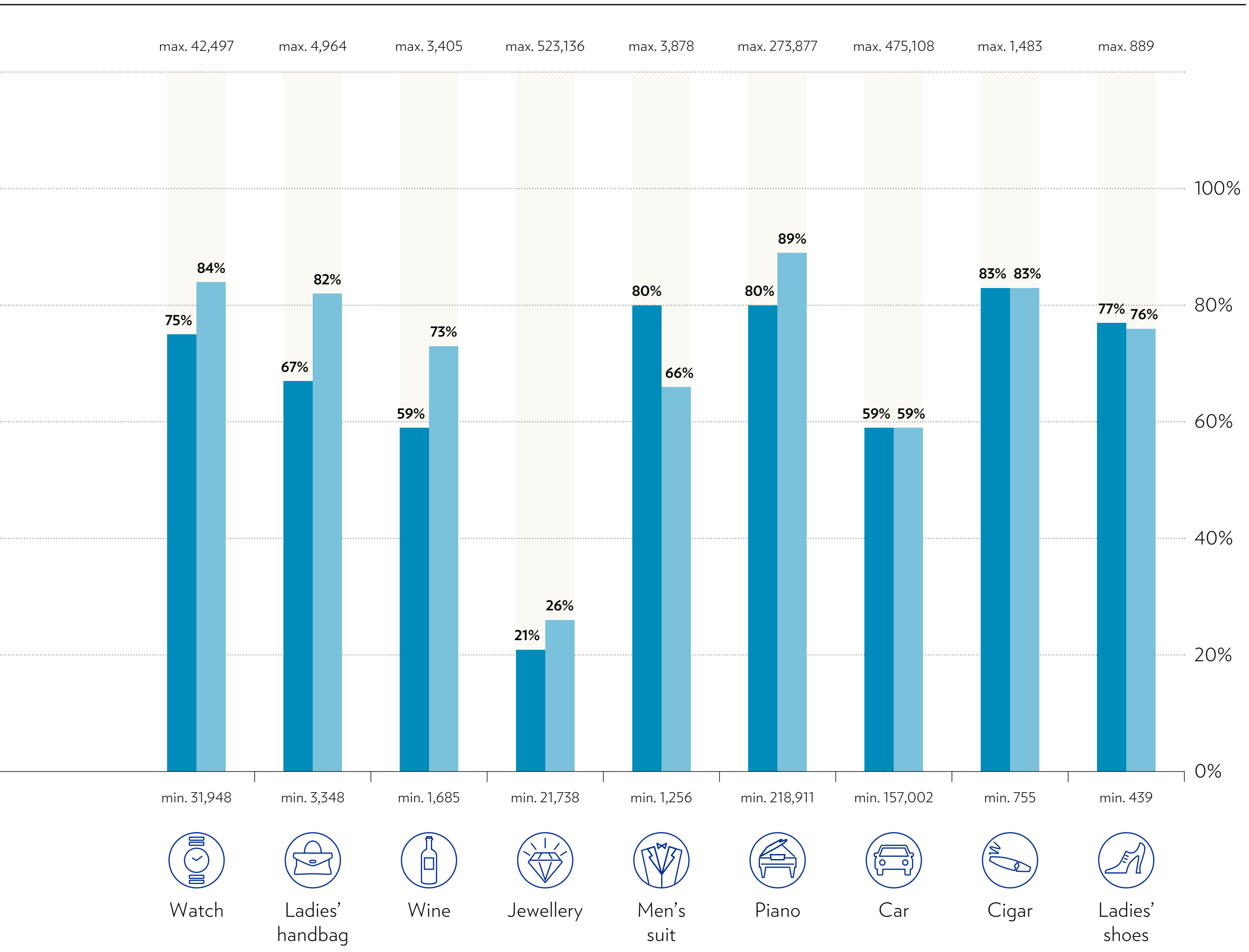
Hong Kong: Service at the peak

The dominant feature in the Hong Kong data set remains high–end property. During the observation period of this year's Julius Baer Lifestyle Index the data set increased 17% year–on–year. Hong Kong remains in the top set for the price of residential property. Comparing property across cities represents unique challenges, as a search for similar sized homes in a premium location is surprisingly difficult.

Hong Kong is also in the top set (top 3–4 cities) of many other items in the index. For example Hong Kong is one of the most expensive markets to hold a premium golf club membership. At USD 386,000 a year this is a hard figure to dwarf, although Tokyo does, and our new selection of golf club in Manila also out prices Hong Kong.

Looking beautiful also remains a challenge in Hong Kong. For botox and dental implants, probably staples of the 'beauty industry', Hong Kong is one of the top two most expensive cities. Hong Kong residents may benefit from visits to Mumbai or Manila in searching for better bargains in the region in terms of high–end beauty treatments.

Travel in and out of Hong Kong also remains expensive. Hong Kong is the second most expensive market to rent a hotel suite – with a price of USD 798 per night, which is considerably more than the cost in Kuala Lumpur (USD 183) or Seoul (USD 272). Hong Kong remains expensive, even with a 5% reduction in the price from last year. Additionally, flights originating from Hong Kong are also more expensive, especially long haul flights. Whilst the price



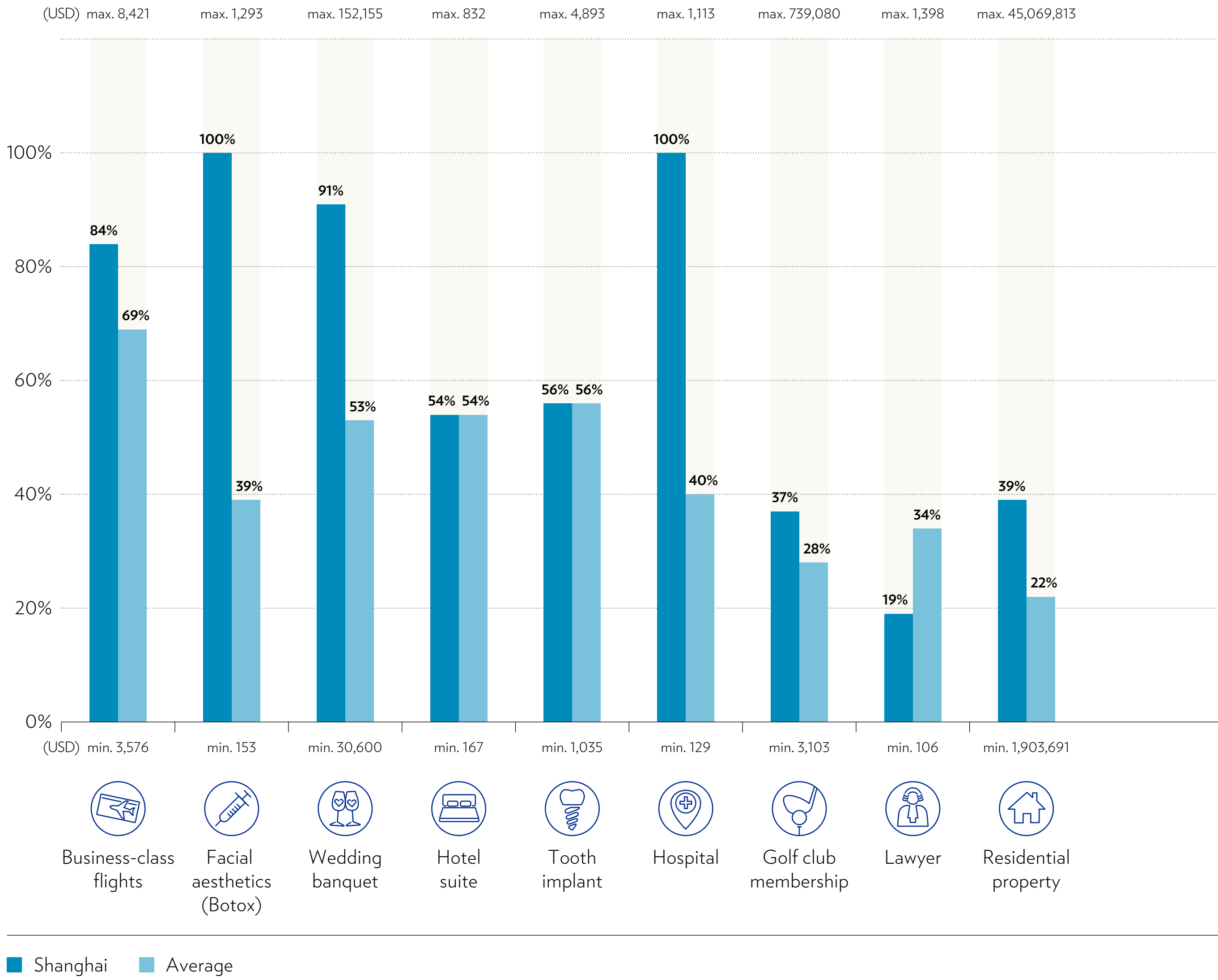
of fuel which dramatically affected the airline industry in our last index seems to have calmed, the price of business class flights from Hong Kong has been maintained, or even slightly increased.

Hong Kong holds the top position for being the most expensive market to purchase the services section of our basket, including the flight, botox treatments, dental work, hospital care, wedding banquet service, hotel suite and lawyers' fees. Relative to other Asian countries, Hong Kong holds middle ground in terms of overall rank for the price of goods in our Julius Baer Lifestyle Index basket of goods.

There are some bargains to be had in Hong Kong. The price of wine, handbags and ladies shoes have decreased in Hong Kong. These staples of the luxury market are regular purchases so there may be significant savings to be made for HK shoppers during the year. Of course those shoppers still need to pay high rent or hotel fees.

For the Hong Kong basket of goods, the year–on–year increase on average was 5% per year. The CPI for the same data collection period was 4.4%, with the economy growing about 2.3%. Whilst from a macroeconomic stance there has been a slowdown in domestic demand and sluggish external trade, the price of products in the basket of goods in the Julius Baer Lifestyle Index for the Hong Kong market has not (yet) started yield.

Chart 5: Julius Baer Lifestyle Index – Shanghai



Source: Ipsos, Julius Baer

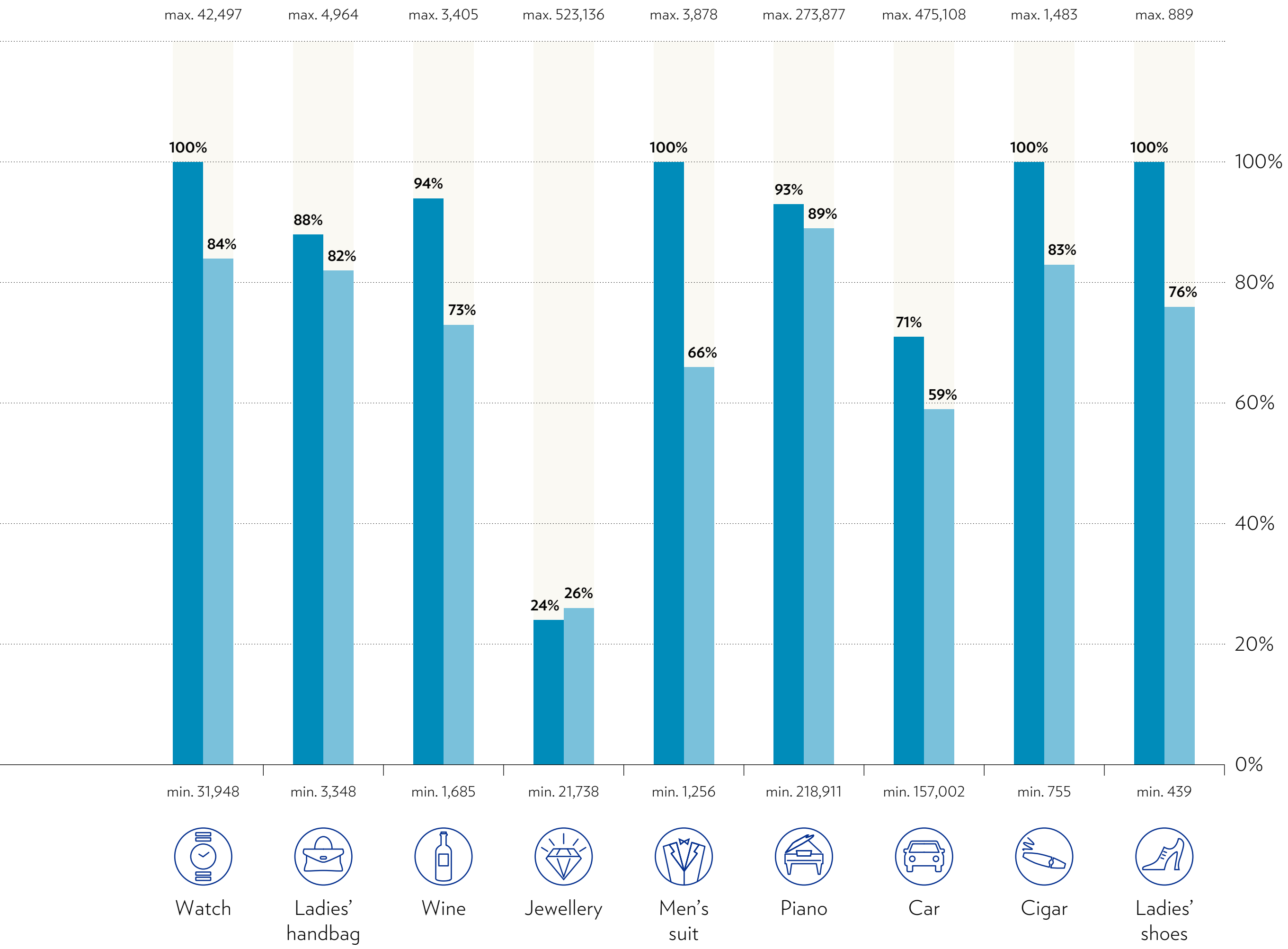
Shanghai: The most expensive city

China has been the growth engine of global economic development for the past few years. Since the beginning of the summer, Chinese markets have experienced cycles of optimism and despair, reflected in stock market and share depreciation.

The observation of prices for the Julius Baer Lifestyle Index precedes the summer, hence the data reflected here has been gathered during a relatively comfortable period of growth, before claims of the 'Great Fall of China' started making the rounds in media circles.

The consumer data from Shanghai was collected during a period of optimism so the price of many items has been seen to increase. This includes the price of property which is the major driver of the index. In our 2013–2014 report we noted that Shanghai had experienced an uncharacteristic dip in prices. That seems to have been 'recovered' with a recorded 15% increase in the prices of high–end residential in the past year.

In Shanghai the price of many luxury items have taken a hit in the past year, including the price of wine, ladies handbags, watches, jewellery and ladies shoes. However these reductions do not necessarily imply



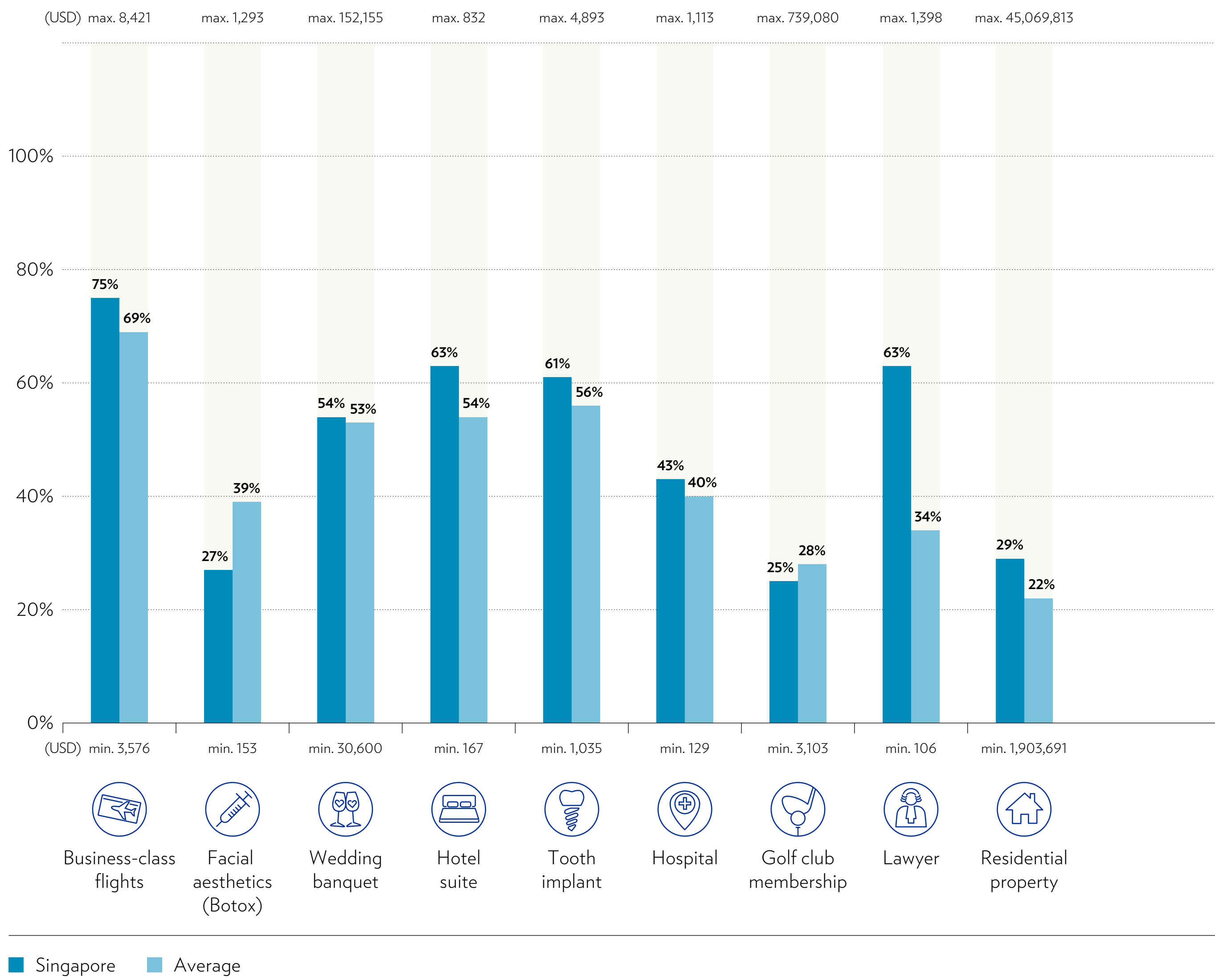
that these items are cheap. Shanghai remains one of the most expensive markets for most of the items in the basket of the Julius Baer Lifestyle Index and is not the least expensive market for any item.

For items such as men's suits, facial aesthetics, watches, hospital stays, cigars, and ladies shoes – Shanghai tops our chart as the most expensive market of all of the eleven featured cities in the Julius Baer Lifestyle Index.

Shanghai is the top ranking 'most expensive' market in our Julius Baer Lifestyle Index for the 'goods' section of our basket, and the second ranked most expensive market for the services section. This gives Shanghai the honour of the highest ranked 'most expensive' city in our eleven cities comparison.

The overall Shanghai market index within our basket changed 3% this year, this is slightly above the 2.58% CPI recorded during the same period. However with possible devaluation of the RMB, stimulation of interest rates to stimulate the market after a volatile summer, we expect some strong price movements ahead in the next year.

Chart 6: Julius Baer Lifestyle Index – Singapore



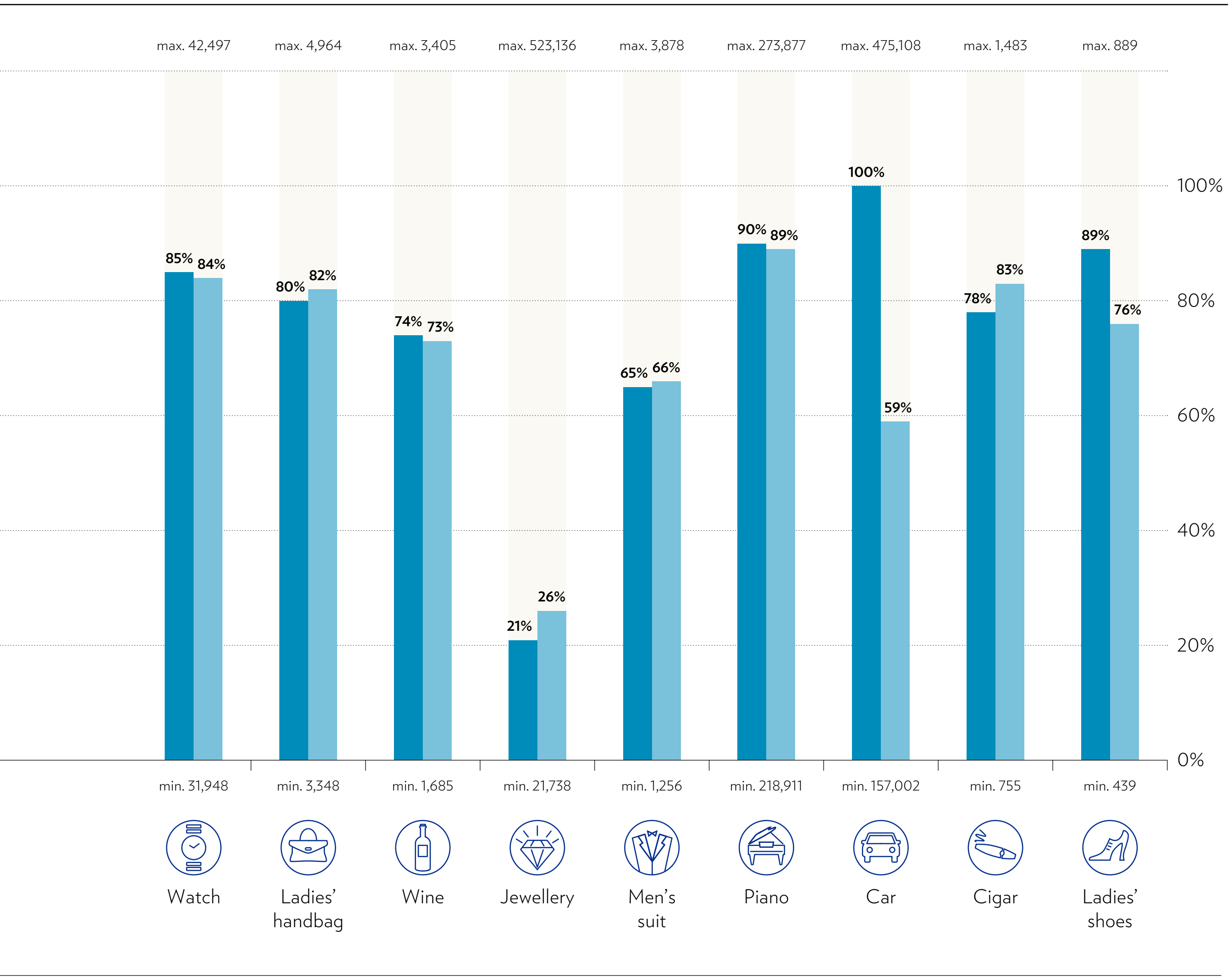
Source: Ipsos, Julius Baer

Singapore: The lion roars

Singapore has traditionally been home to both relatively inexpensive luxury goods and services – which when we compare to the rest of Asia tends to place Singapore in the middle of the road in terms of pricing of luxury.

Singapore remains the most expensive market for the car tracked in the Julius Baer Lifestyle Index: the black standard Mercedes SL550 for USD 475,108. This pricing is partially reflective of special car–related taxes.

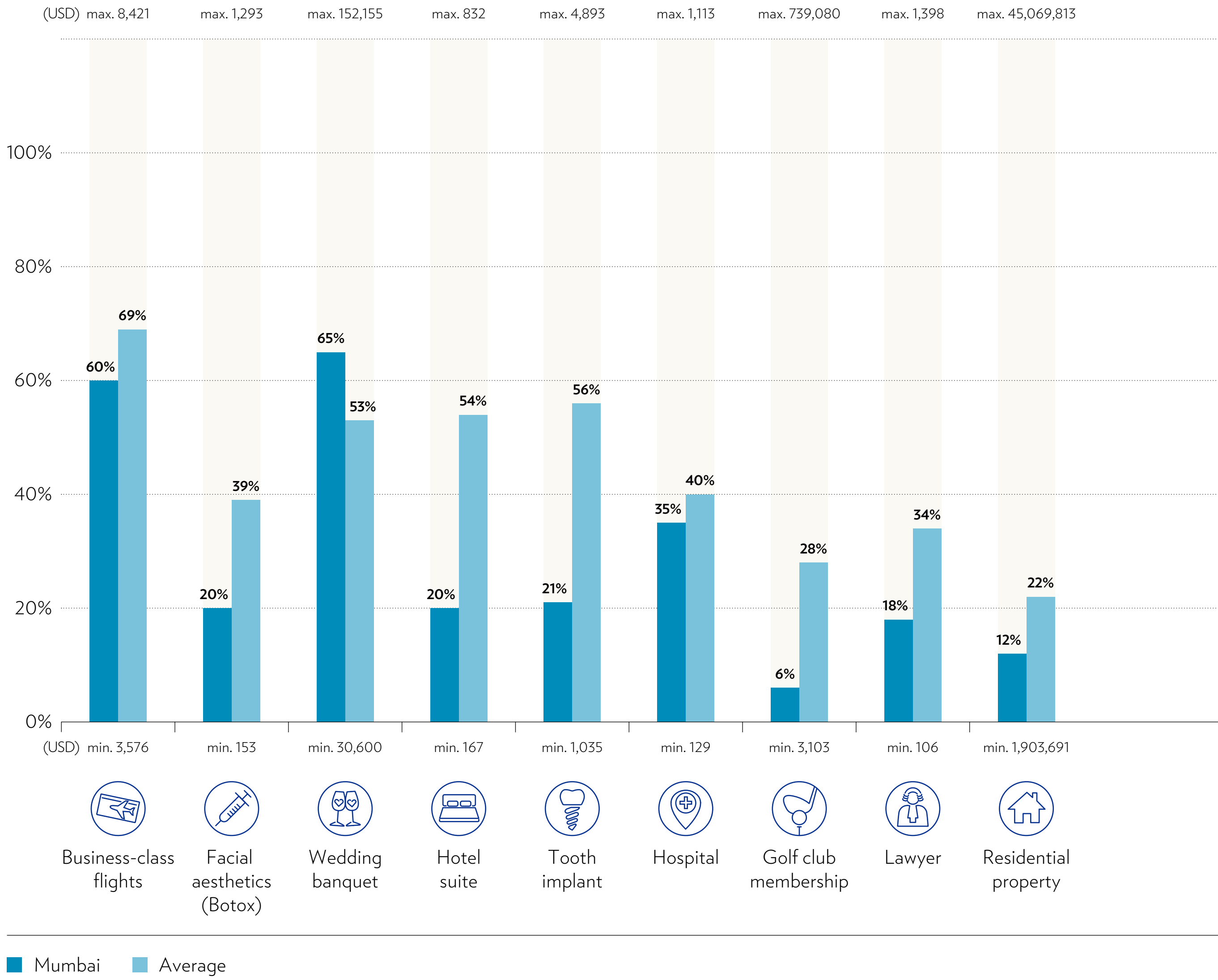
In comparison to other cities, Singapore is also relatively expensive to rent a hotel suite, a stay at the hospital, legal fees used in drafting a will, and residential property. During our data collection period there was a 0% change in the luxury high–end market of property in Singapore. This may be due to price resilience of this specific sector, when the residential property in general was said to be weak following a series of property measures introduced in 2009.



In terms of price changes experienced in the past year, in local currency terms, many items in the index have increased in cost, including the items where Singapore has traditionally been a relative bargain – botox, ladies shoes. This may be reflective that Singapore has a relatively large population of high net worth individuals compared to the total number of inhabitants, meaning that the average and median wealth of the population is also quite high. As a consequence, the demand for the goods and services featured in the Julius Baer Lifestyle Index will apply to a larger part of the population in Singapore than in other cities, where the income skew is more pronounced.

We expect the Singapore dollar to depreciate slightly against the US dollar over the next 12 months and the economy to grow moderately at a pace of 2.5% which may see another round of price increases in the luxury sector in Singapore.

Chart 7: Julius Baer Lifestyle Index – Mumbai



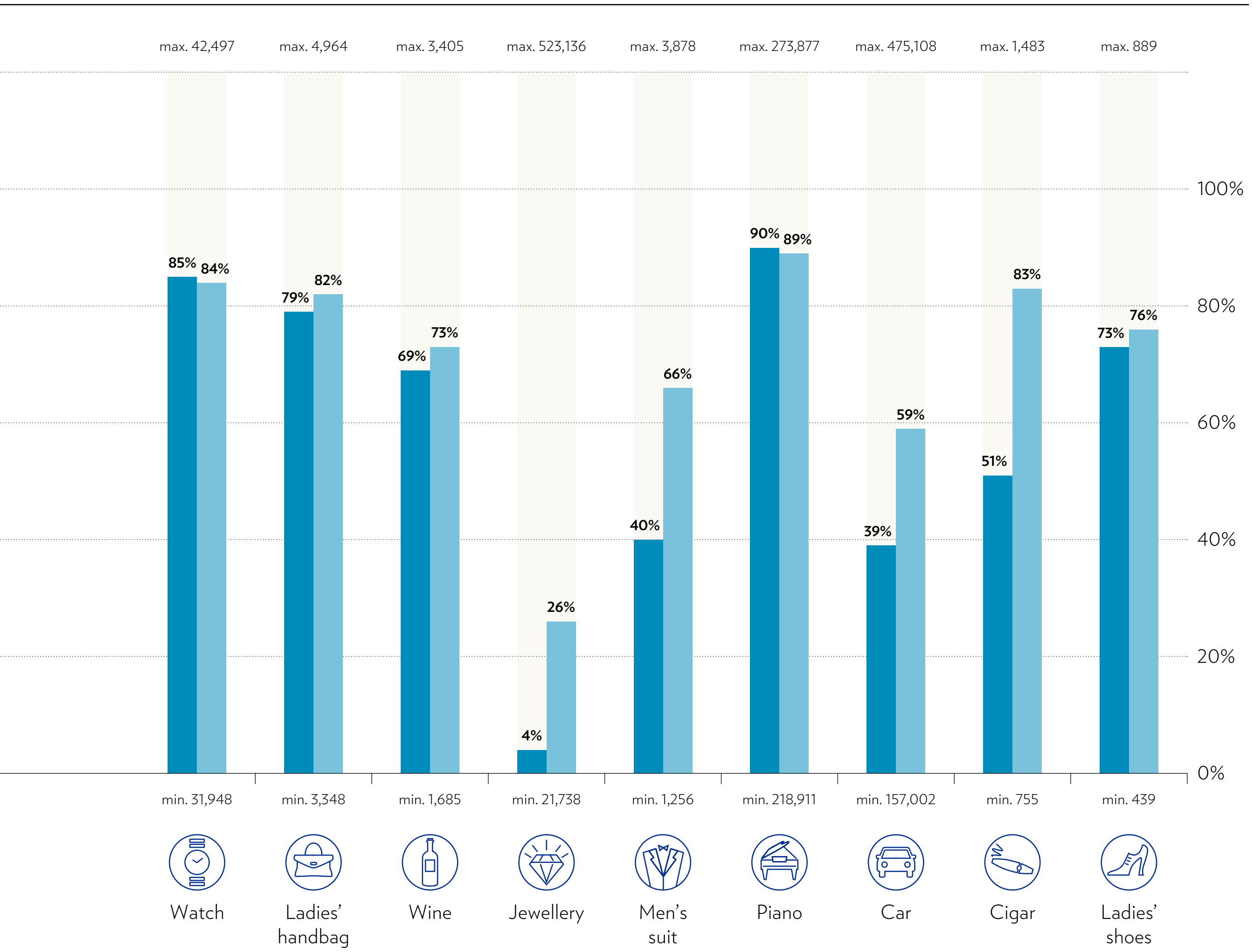
Source: Ipsos, Julius Baer

Mumbai: Bargaining time

Inflation in Mumbai remained high during the period of observation for the Julius Baer Lifestyle Index due to food price increases and housing inflation. This positive change in CPI driving measures was not fully reflected in the luxury sector captured by the basket of goods in the Julius Baer Lifestyle Index. The index on a whole for Mumbai experienced a –1% change, meaning that despite inflation the price of luxury is dropping.

Driving this depreciation momentum is a –9% year–on–year change in the cost of high–end luxury property which, because of its importance in weighting in the Index, can influence the trend of the market more than any other item. We also see some prices increasing, including the price of business class travel originating in Mumbai, and an increase in the price of hotel suites and wedding banquets.

Three years ago when we compared Mumbai to the rest of the markets the most expensive wedding price was recorded for this market. While the cost in Mumbai remains in the top four most expensive markets, it had decreased significantly in the past few years. This year the price of wedding banquets

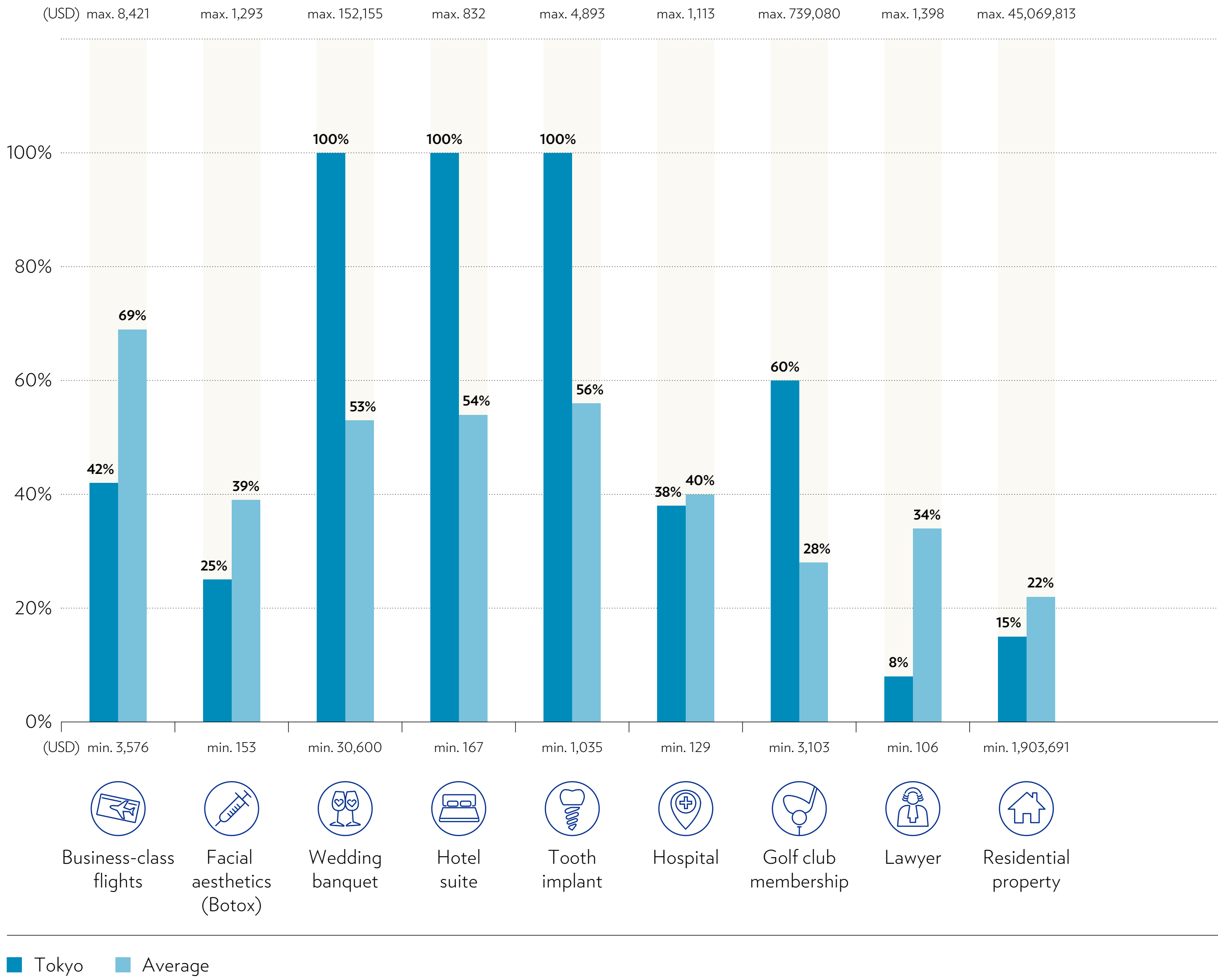


increased by 5%, but the price of USD 99, 407 is nearly 36% down from its heyday when Mumbai was the most expensive market (in 2013 the price was recorded as USD 154,926). This pattern is also the case for business class travel, hotel suites, golf club membership and cars. Each of those items saw a reduction on year to year prices for the period 2013 to 2014. Now the increase in the 2014 to 2015 set may be normative rather than inflationary.

In the regional comparisons, Mumbai is a regional relative bargain for the overall basket of services and goods, and is also the least expensive city in terms of ranking for goods.

Our outlook for India is covered in depth in a special section of this report, we expect India's economic expansion to strengthen in the next year, supported by the revival of infrastructure projects and growth in the equity markets. This bodes well for the growth of wealthy individuals in India, and therefore the future of the luxury items inside the Julius Baer Lifestyle Index basket which are features of the UHNW lifestyle.

Chart 8: Julius Baer Lifestyle Index – Tokyo

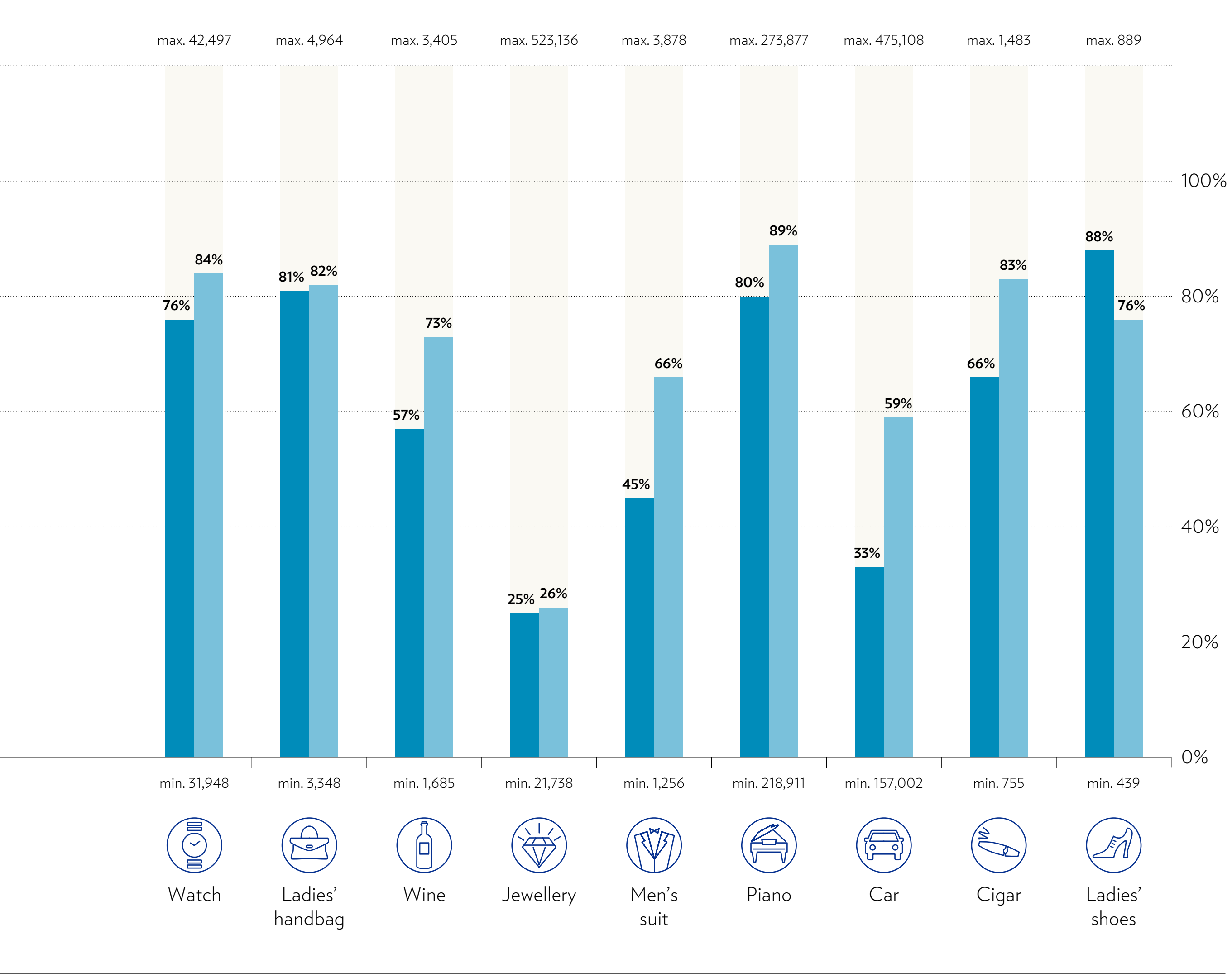


Source: Ipsos, Julius Baer

Tokyo: On the road to recovery

In Japan, property looks to be an attractive investment because it has decreased by 6% during the observation period, which has attracted a lot of investment interest over the past year.

The Japanese economy has been depreciating with quite variable CPI during the observation period, from 1.5% to 3.7% for various months. According to the luxury sector captured in the Julius Baer Lifestyle Index, the market experienced a 1% decline. The price of most items staying the same, or declining over the observation period. When we compare Tokyo to the other ten cities, Tokyo maintains a middle ground in terms of relative pricing, not the most expensive, not the least expensive overall, or for services or goods. That said there are certain items in the index where Tokyo seems to be the place to get a bargain at this time: this includes business class fares, legal advice, buy a luxury watch or car, or enjoying a cigar.

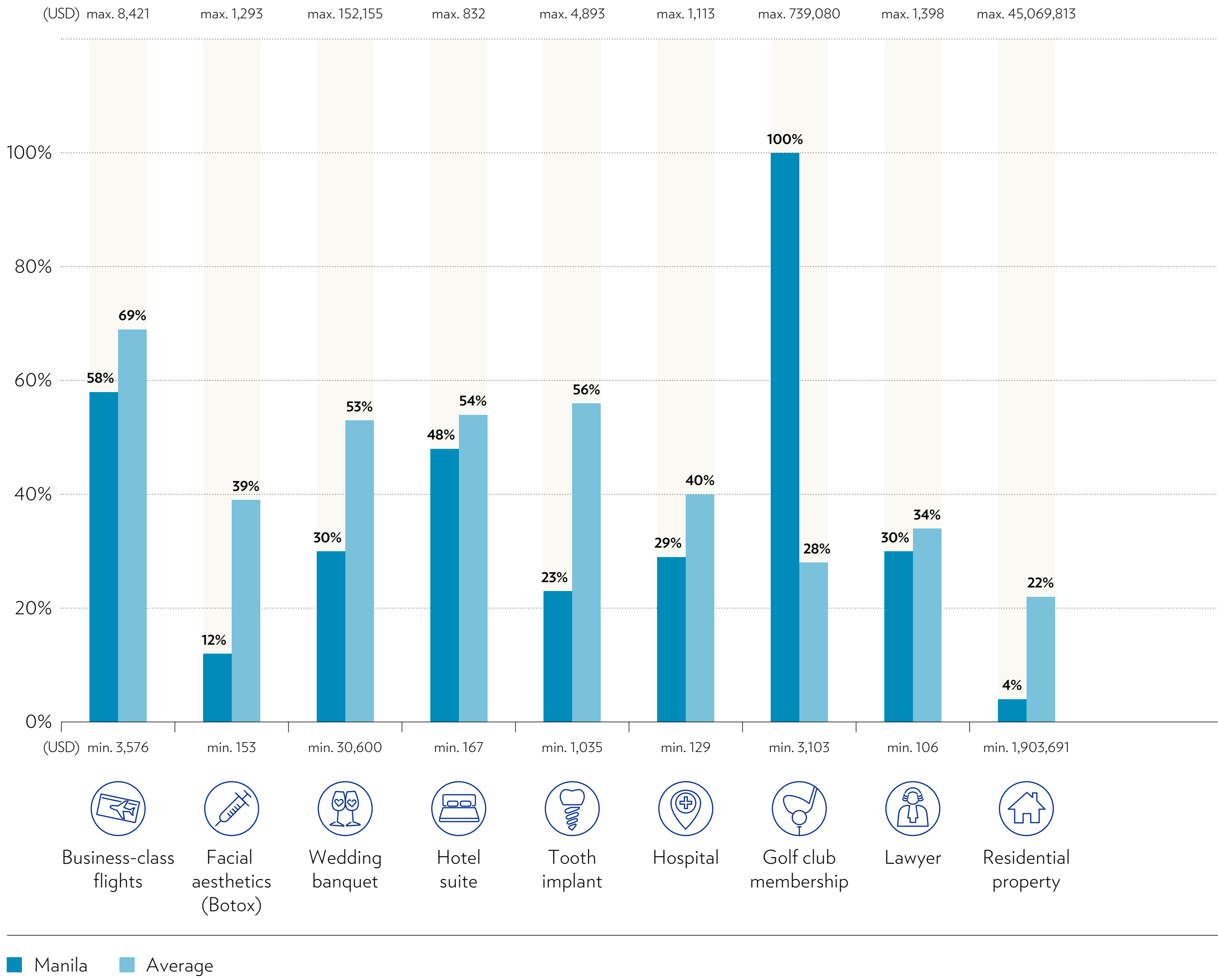


Having said this, the price for items such as ladies shoes, wedding banquet and high–end jewellery have increased more than 10% this year. Tokyo is the most expensive location in Asia to hold a 500–person banquet in a 5 star hotel. The price in the index USD 152,155 will not reflect the full expense of a nuptial, implying that the gap between the next most expensive city, Shanghai, could be even greater.

Tokyo is also the most expensive city for hotel suites and tooth implant, and within the top three for golf club memberships and ladies shoes.

Prices in some of these items may be coming down in the next year, but they have a long way to go before Tokyo is cheaper than many of its Asia neighbours. Our outlook for Japan remains positive and we will be watching movements in the Yen closely. We believe in the Japanese market there are signs of growth and this is explored in our special feature section on Japan in this report.

Chart 9: Julius Baer Lifestyle Index – Manila



Source: Ipsos, Julius Baer

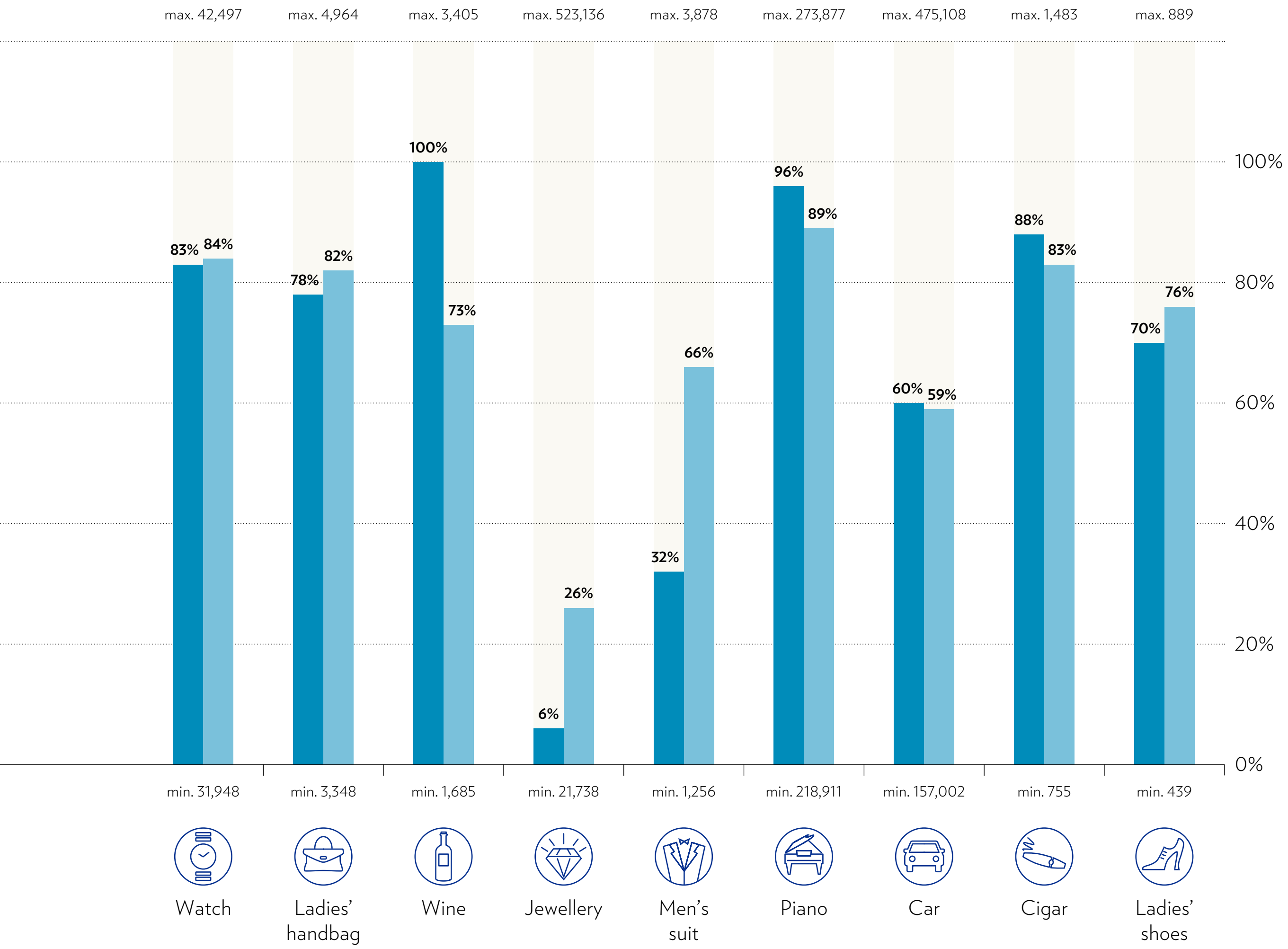
Manila: A bargain set to shine

The economic rise of the Philippines has been overshadowed by that of its larger neighbours but in recent years it has started taking an exciting path. The Philippines has an important agricultural sector, coupled with a manufacturing sector that, measured in share of GDP remains similar to Malaysia's but in the future arguably hinges on its ability to capitalise on its strength in the services area.

We expect the economic expansion of the Philippines to be moderate over the next 12 months – fairly similar to that which we observed during our tracking timeframe. Over the data collection period the average CPI measure was 3.8% and GDP growth was calculated at 6%. The Index for Manila, comparing price changes year–on–year, to be 3%.

Within the index more items are increasing than seeing decreases in prices. The most prominent changes are in the items of watches (+10%), hotel suite (+15%), and our luxury car (+28%). This is the second year in a row of continued price increases in the hotel and car sector.

Overall in comparison to other Asia markets, Manila is quite a bargain for both goods and services, being in the bottom 3 cities so this increases its potential



attractiveness, hence people can live a life of luxury for less in the Philippines than many places in Asia except Mumbai and Jakarta.

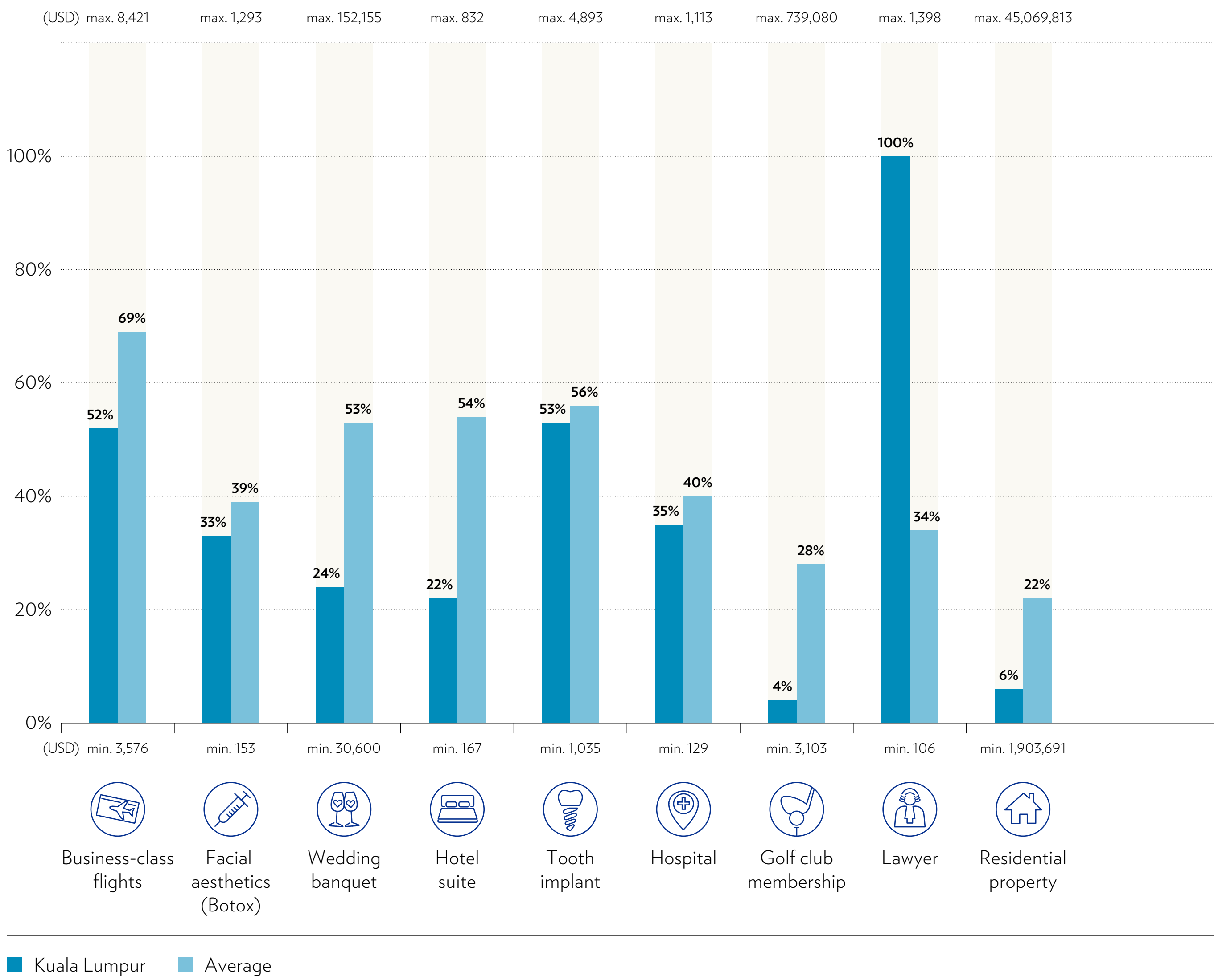
In terms of specific items Manila is the biggest bargain for an Armani men's suit, botox procedures, jewellery and high-end luxury apartments. This echos what we have seen in 2014 and 2013 – high-end properties with amenities such as swimming pools and other extras still remain relatively affordable compared to Hong Kong, Shanghai and Singapore.

Manila is also an extremely attractive place to consider high-end dental treatment and this has been the case for a few years now.

Wine is more expensive in Manila than any other key Asia markets. Additionally, pianos and cars are also more expensive here than on average, the latter of which was not the case when we last conducted regional comparisons in 2013.

The one outstanding item where Manila appears very expensive, and may not be is golf club membership which is due to changes in our golf club selection. We address how certain items need to be changed from time to time in our special section on the basket of the future.

Chart 10: Julius Baer Lifestyle Index – Kuala Lumpur

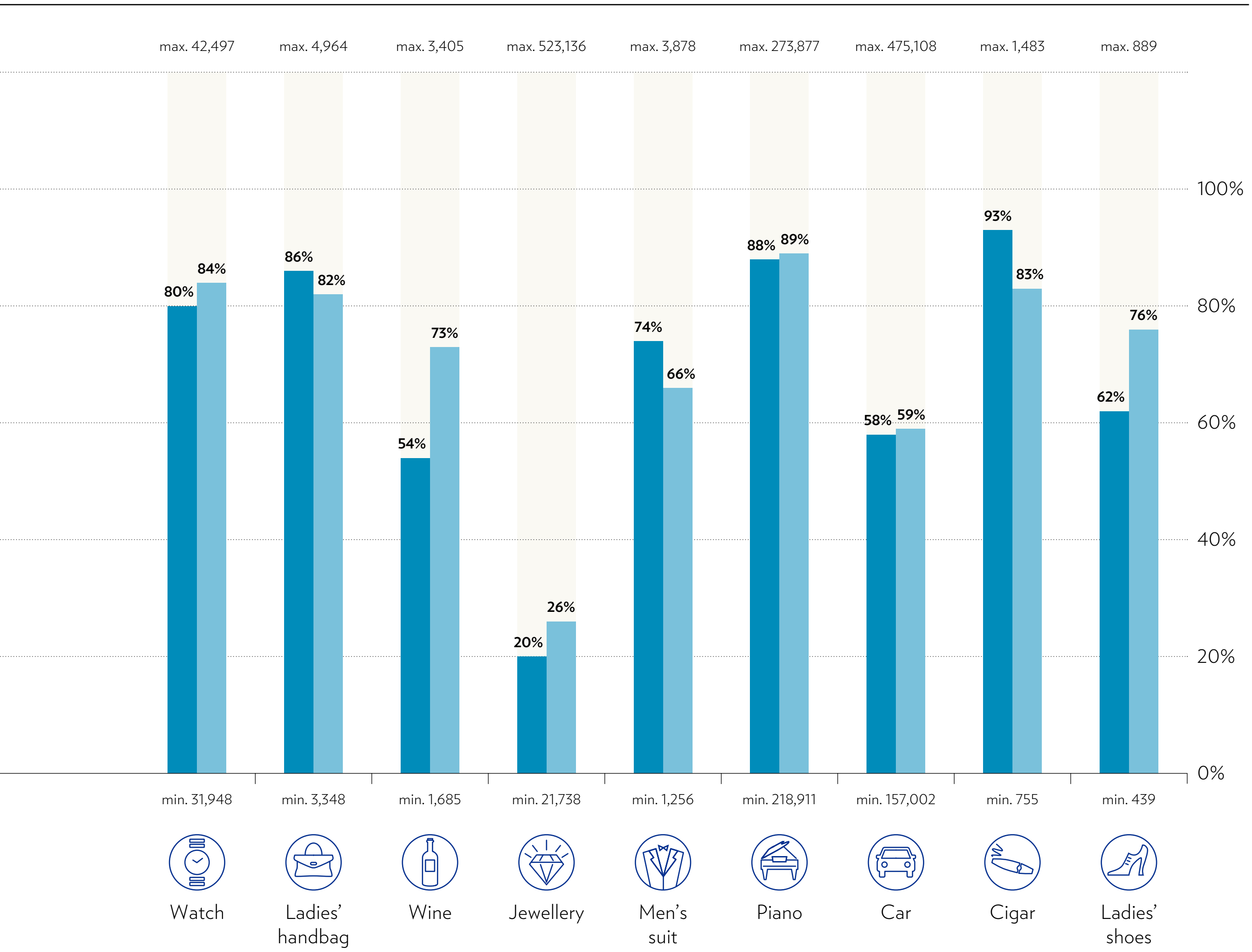


Source: Ipsos, Julius Baer

Kuala Lumpur: Building a bright future

Together with Indonesia, Malaysia has the potential to be a growth leader in The Association of Southeast Asian Nations (ASEAN) community. In the near term however, the economy faces certain headwinds as a highly export oriented economy and net oil exporter. The Malaysian economy recorded stronger growth of 6% in the past year, on the back of substantial infrastructure spending. Headline inflation of 3.1% was driven by domestic cost factors. However, we expect inflation to fall back to 2.5%. We expect the ringgit to continue to slowly lose ground against the USD, and continue to do so for the next year.

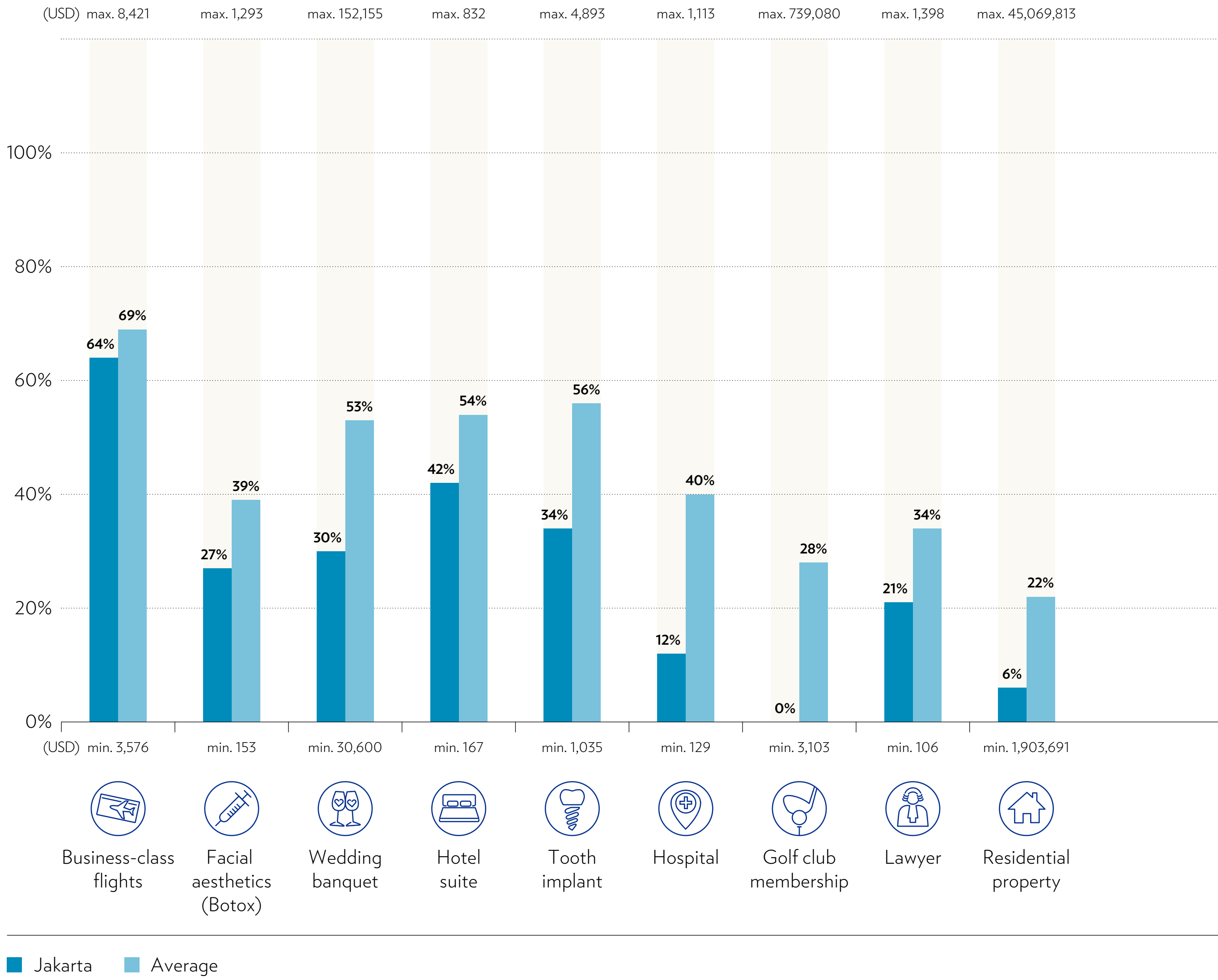
Whilst half of the items in the index are increasing on costs, another half is dropping, leading to an overall Kuala Lumpur Lifestyle Index change of –2% on average for changes in the cost of luxury items. Driving this trend is an 8% reduction in the price of high–end luxury apartments, which is making Malaysia one of the least costly markets for high–end property.



On the whole Malaysia is pretty average in the index in terms of pricing of goods and services in overall comparisons, but it is a bargain for certain goods: wine, ladies' shoes, and services: business class flights, wedding banquets, hotel suites and golf club membership.

Comparing price change trends from year to year, in the 2013–2014 Index many prices in Kuala Lumpur went up, in spite of a general deflationary Asian Index measure. This year the Index shows some more signs of price stability for the overall Julius Baer Lifestyle Index in Asia but the Kuala Lumpur prices in particular are still seeing a lot of change. This time there appears to be some form of correction in previous price increases and this includes items such as hotel suites, lawyer's fees and cigars, which previously had increased considerably and now moving strongly in the other direction.

Chart 11: Julius Baer Lifestyle Index – Jakarta

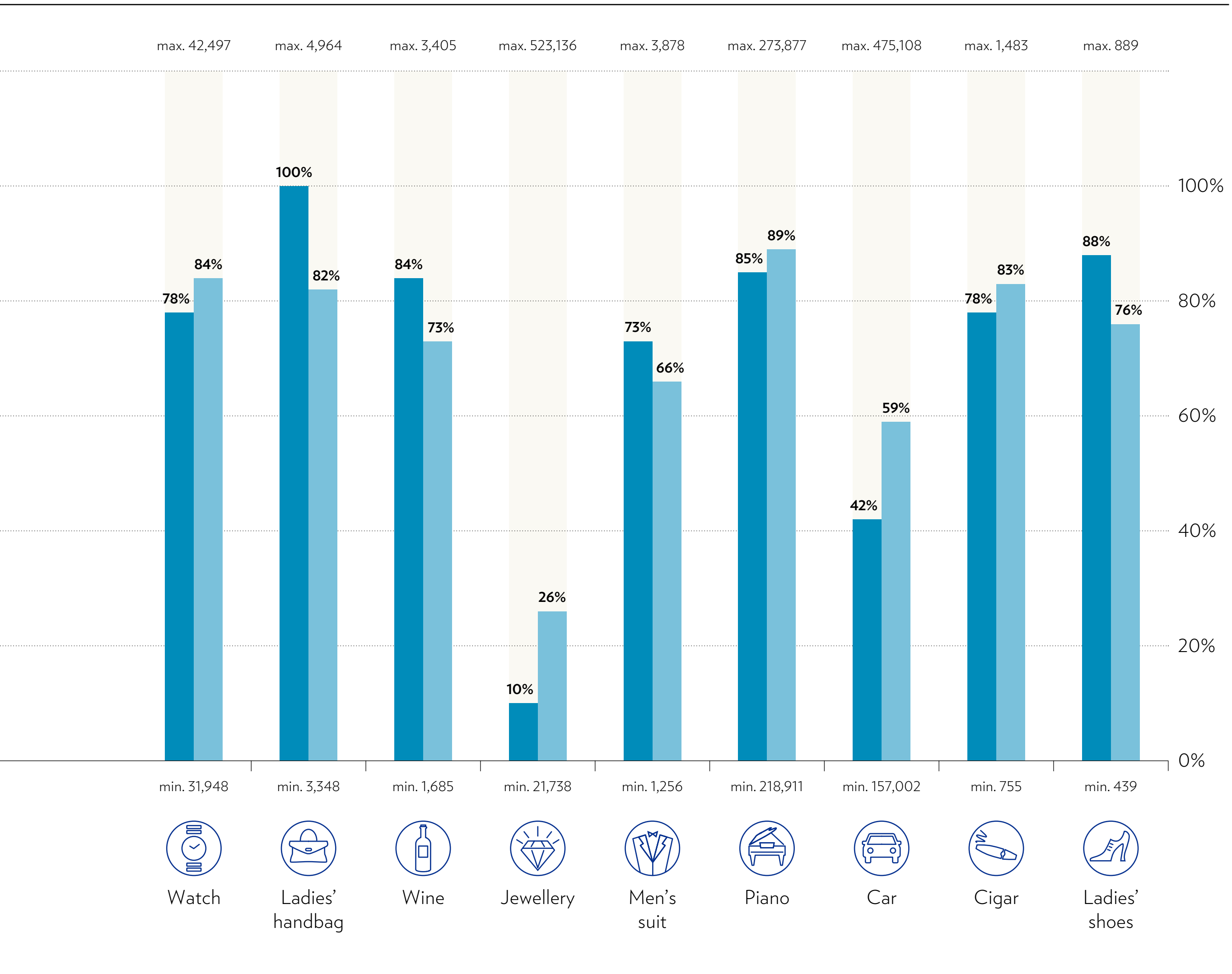


Source: Ipsos, Julius Baer

Jakarta: Ready, set ...

Economic growth in Indonesia slipped in the past year amid slow progress in structural reforms, the global economic slowdown and the government's fiscal savings programme. The CPI recorded during our observation period was 6.3% on average. The Julius Baer Lifestyle Index specifically for Jakarta was –3% in local currency. This means that in our basket of luxury goods and services the average price change for the entire basket was a reduction on the figure on the year before.

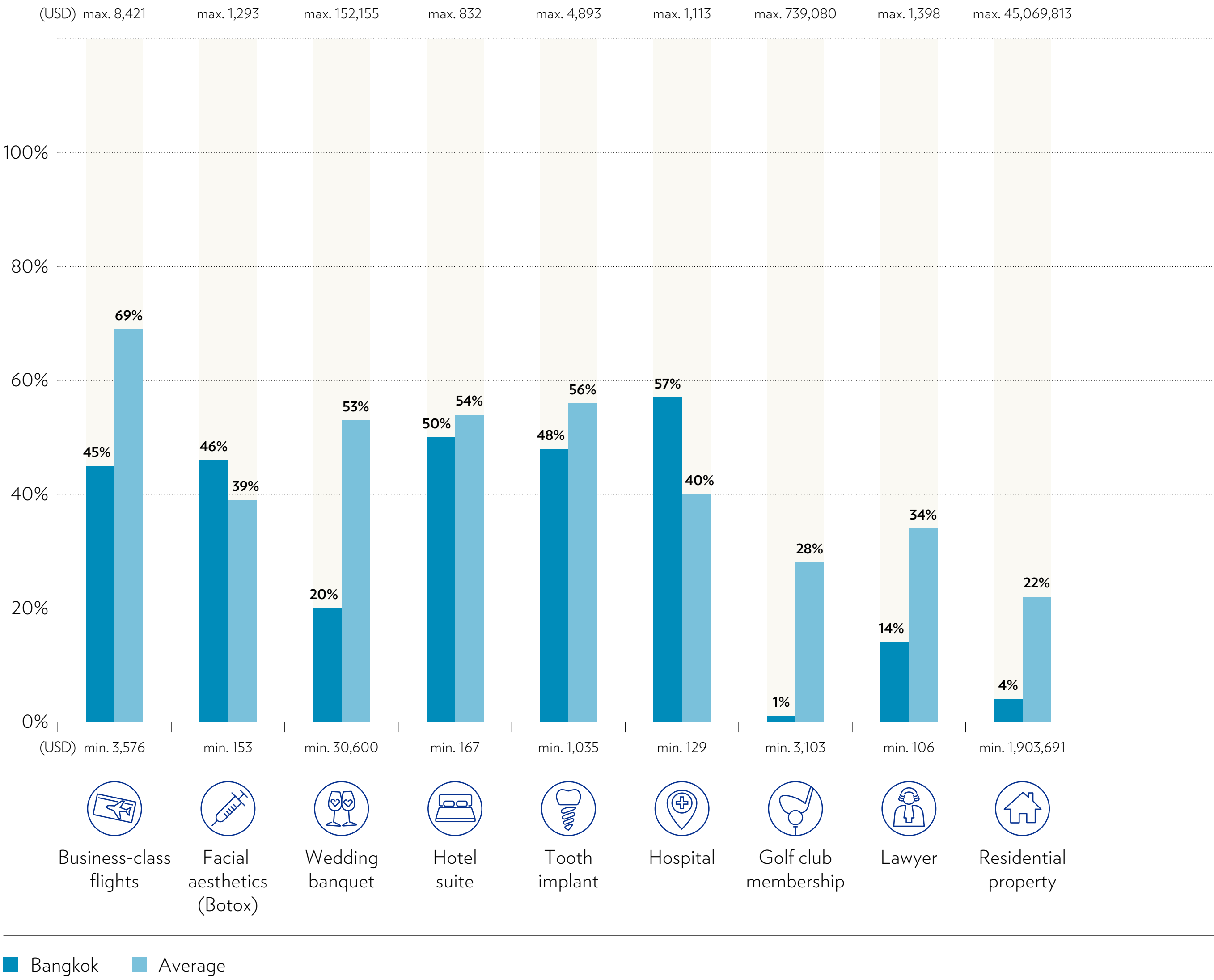
The price of luxury in Jakarta is usually a bargain when compared to other Asian nations. When we compare the ranking of most expensive to least expensive for each of the markets, Jakarta is now the least expensive for the services section of the basket. It is below average for the goods section as well,



making Jakarta the overall second least expensive city for the items in the Julius Baer Lifestyle Index within the eleven cities featured in the Index.

In particular Jakarta has attractive prices for high–end dentistry, hospital care, golf club memberships, jewellery, watch and cigars. The price of many of these items is increasing so we expect to see some significant updates in the Index records next year.

Chart 12: Julius Baer Lifestyle Index – Bangkok

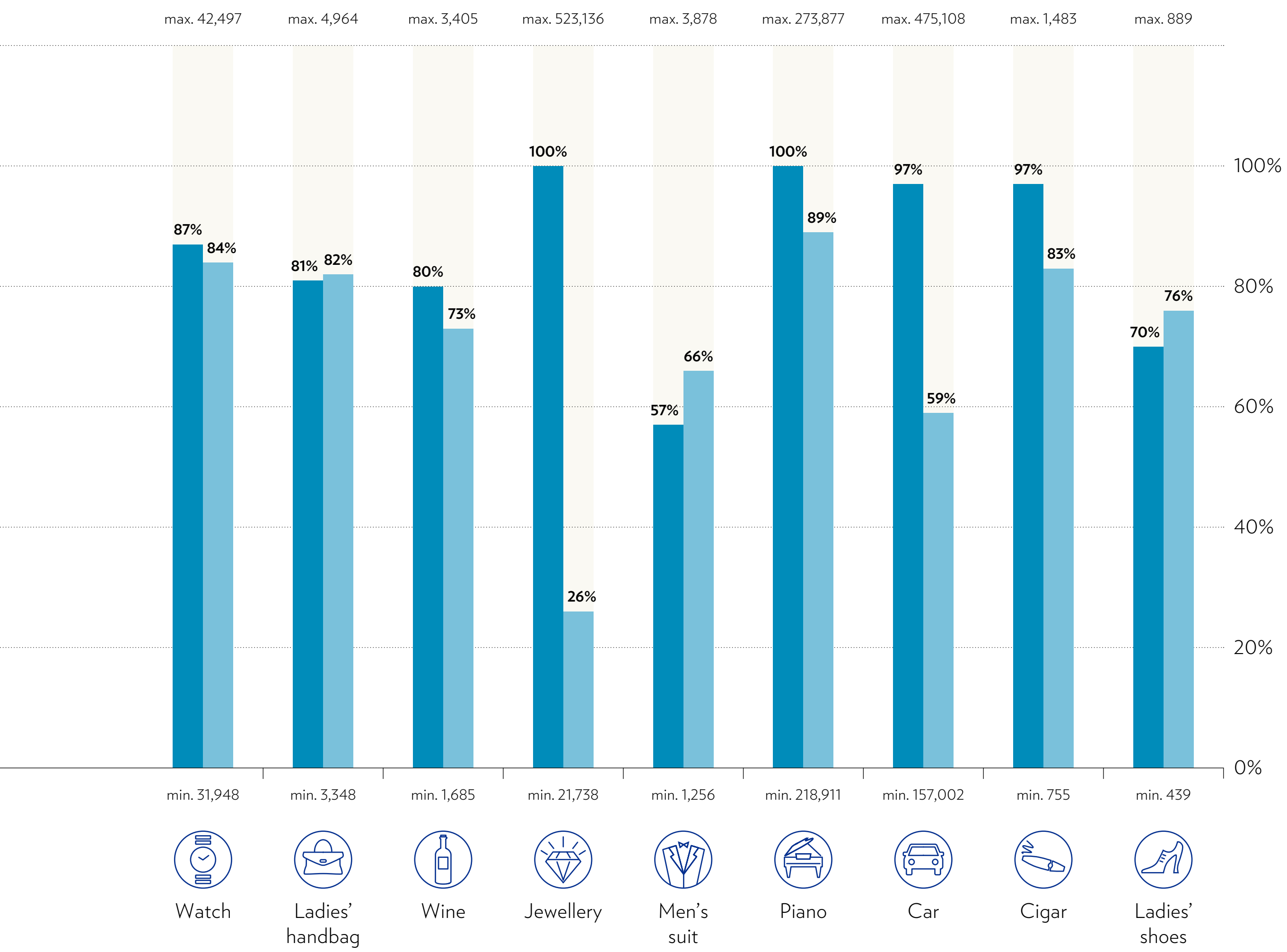


Source: Ipsos, Julius Baer

Bangkok: Recovery on hold, for now

We last made a comparison of Bangkok to the rest of the region, back in 2013. At that stage the country seemed set for growth, particularly in the service area, which were highly dependent on the tourism industry. The political unrest in the interim that was evident in Bangkok from late 2013 to mid 2014 seemed to have unsettled Bangkok's relative position in the index. The observation period for the Julius Baer Lifestyle Index also preceded unsettling events in August 2015. It seems that Bangkok may have been heading out of a slump and in future we will have to see if that trend will continue in light of recent events.

A cursory look at prices in the 2014 report and this 2015 report indicates that there was sign of price recovery. In 2014 many of the prices in the index were down from the year before. This year they were up again – specially wedding banquets, hospitals, hotels, which are the mainstay of the tourism industry in Bangkok. Jewellery and cars have also increased in price year–on–year.

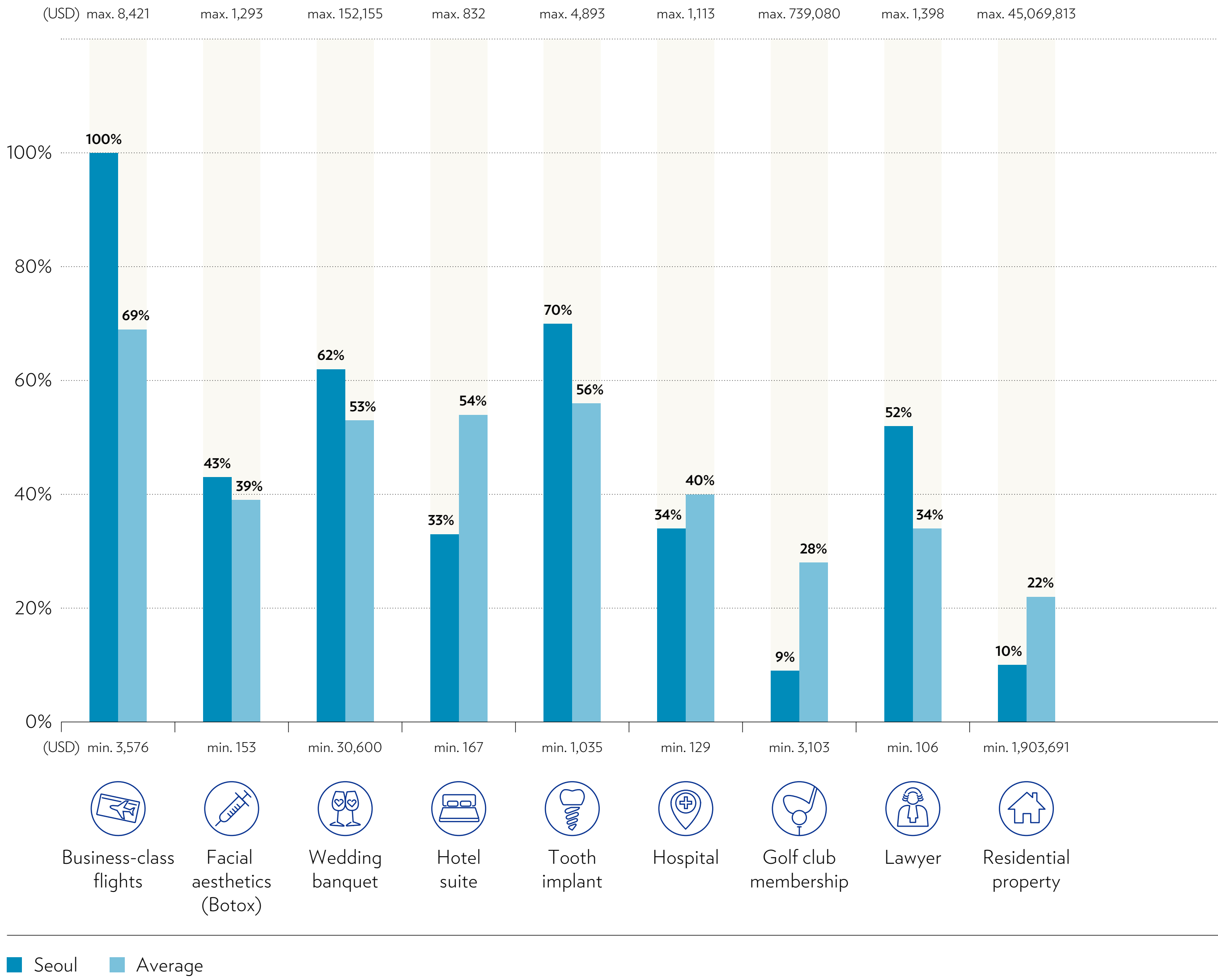


Bangkok still remains a bargain for services – a sector which is possibly affected by political or economic unrest. Golf memberships, wedding banquet, lawyer's fees, property, and business class flights are cheaper than much of the region. In the overall service area, only Mumbai and Jakarta offer cheaper services in Asia than Bangkok.

For goods, Bangkok is actually one of the most expensive markets. This is driven by the relatively high price of jewellery, watches, pianos, cars and cigars in this market. For Bangkok there may be more price pressure ahead.

In pure economic terms we expect the Thai economy to perform better next year, as long as the tourism sector can continue to do well, and government spending continues.

Chart 13: Julius Baer Lifestyle Index – Seoul

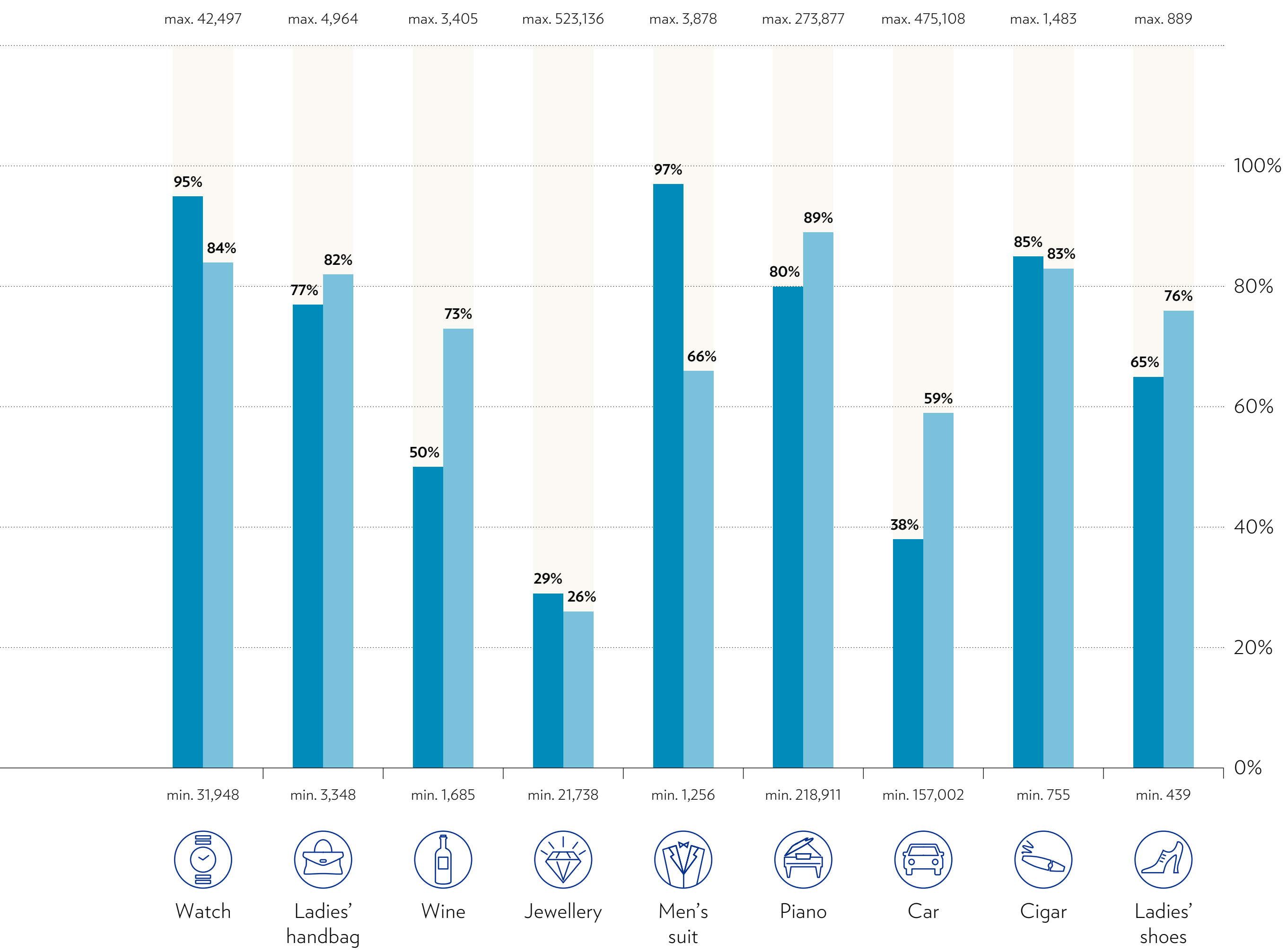


Source: Ipsos, Julius Baer

Seoul: Still waters run deep

Over the past year, Korea has experienced a 3.3% GDP growth, fueled by a moderate recovery in the global economy lead by the United States. However a slowdown in private consumption meant that the domestic economy remained lackluster.

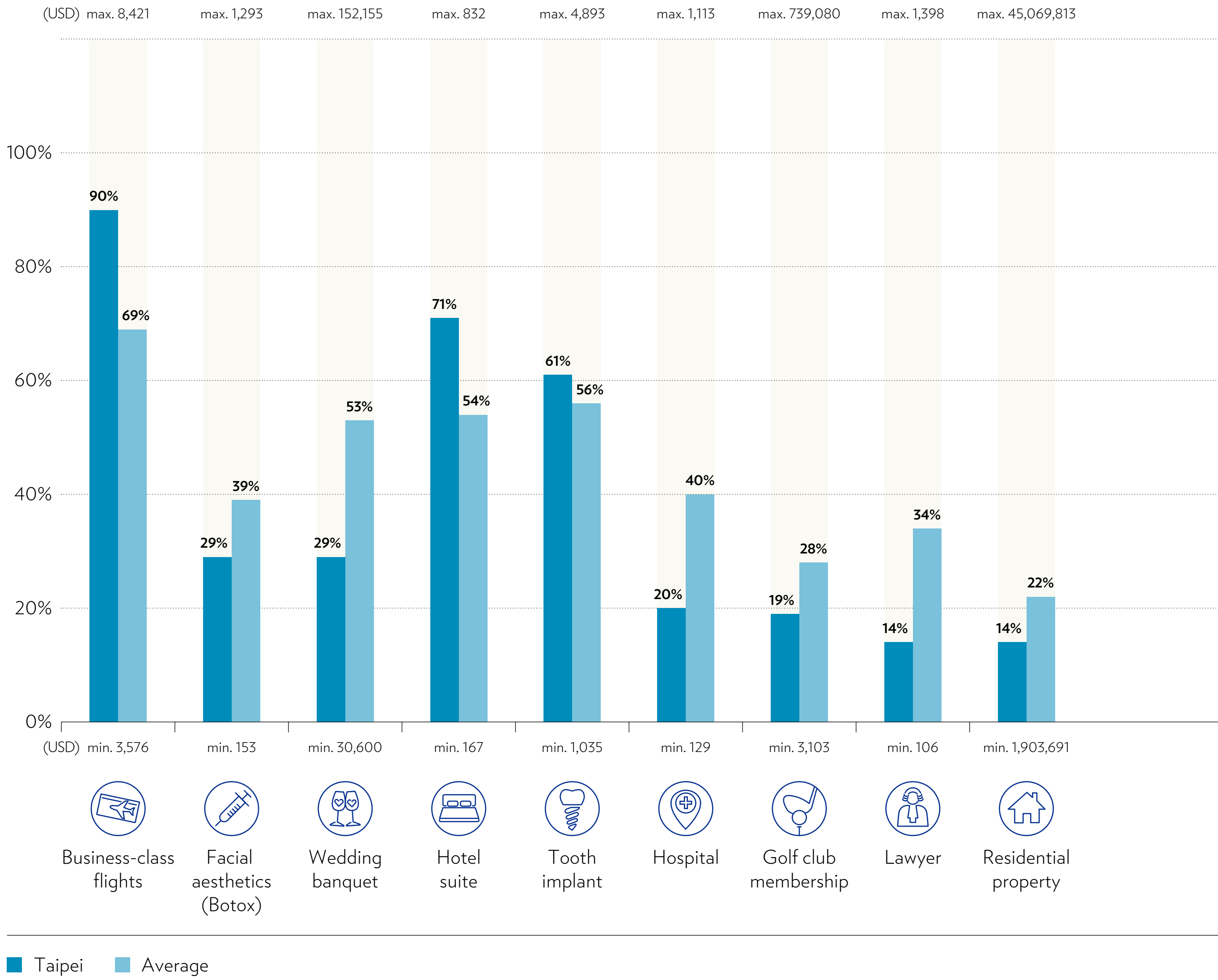
Our Julius Baer Lifestyle Index indicates that in Seoul, the price of our luxury basket decreased slightly by 1% in local currency. This is comprised, rather surprisingly, by some big shifts in prices of items within the index, with 11 items decreasing in price (including goods such as: watches, ladies' handbags, wine, jewellery, men's suits and our luxury car; and services: wedding banquet, high–end dentistry, hospital care, golf club memberships, and facial aesthetic procedures), whilst 9 items increased (including the all–important luxury residential property, business class flights, hotel suite, lawyer's fees, the piano, the cigar, and ladies' shoes). Hence this small decrease actually indicates some quite significant moves in the consumer market.



With the leaps that Korea has been making in past years it is no surprise that Seoul is one of the most expensive cities in the Index for both goods and services, occupying the 4th most expensive city slot in the rankings. In particular Seoul is (relatively) expensive for business class flights, jewellery, men's suit and watches, as well as high–end dentistry treatment.

We expect moderate growth in Korea in the next year, around 3% again. The Korean Won is likely to remain at low levels to the US dollar, mainly due to monetary easing, a lower current account surplus and a narrowing of the interest rate differential with the US which will exert downward pressure on the currency. For the Julius Baer Lifestyle Index, we expect to slow steady progress as Korea continues to grow and build its UHNW universe.

Chart 14: Julius Baer Lifestyle Index – Taipei

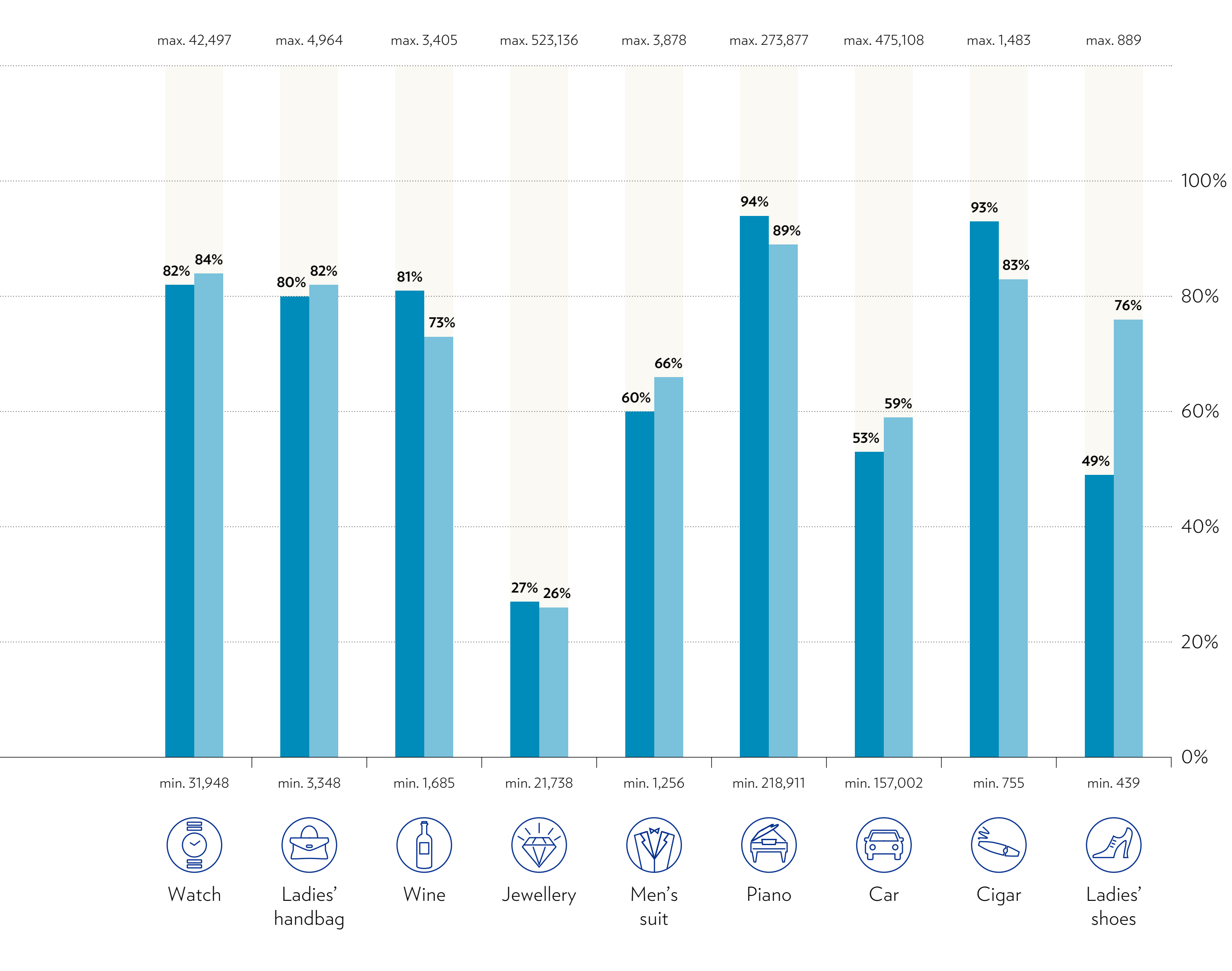


Source: Ipsos, Julius Baer

Taipei: Steady as she grows

In 2014, Taiwan's economic recovery strengthened with real GDP registering a three year high growth of 3.8% on the back of a revival in domestic demand and a robust expansion in exports. This positivism is reflected in the Julius Baer Lifestyle Index where Taiwan held its ground while many markets experienced pressure to decrease prices. There is overall a 0% change in the price of goods and services in Taiwan.

Within the individual items there was variation with property, hotel suite, golf club memberships, wine, botox and ladies' shoes all cheaper year–on–year, and business class flights, wedding banquets, watch, jewellery, men's suits, pianos and cigars all more expensive than they were the year before.



In terms of being a more/less expensive city for the overall basket, Taipei is middle of the road. For goods it is among the top 4 most expensive cities – especially for business class flights, hotel suite, pianos and cigars. For services, it is right in the middle position of the eleven cities.

Our outlook for Taiwan is mild; we expect GDP growth in Taiwan to decelerate in the next year to 3% due to weakening demand for electronic exports and a possible slowdown in Chinese tourism. Over the next year the political agenda is set to dominate headlines as the current administration gets ready for parliamentary and presidential elections in January 2016.

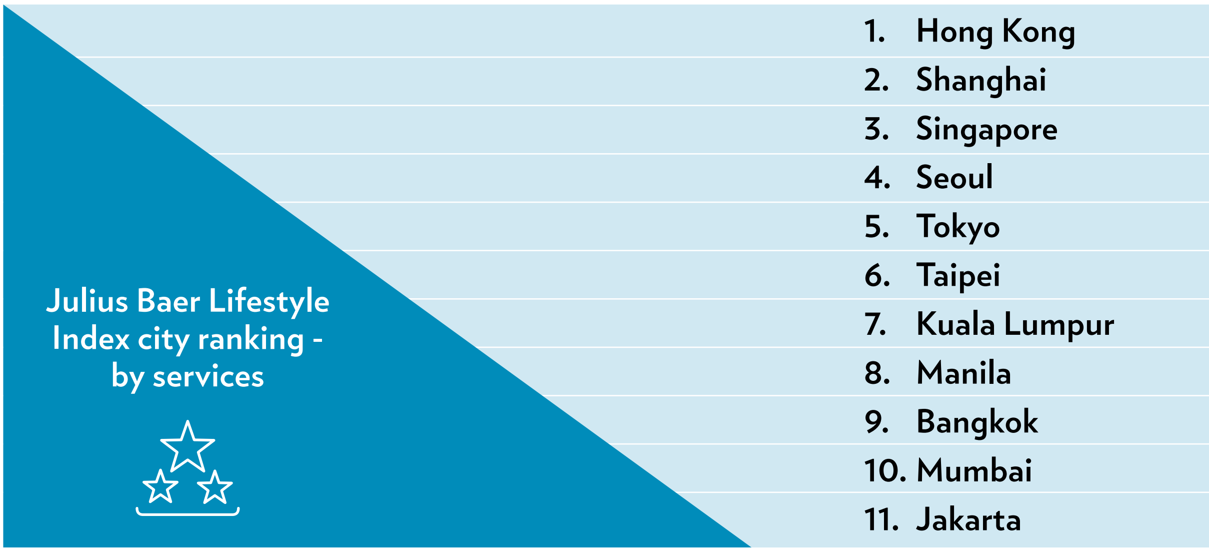
City comparisons – Most expensive to least expensive

The Julius Baer Lifestyle Index allows us to explore how the eleven cities compare in their individual category rankings for most expensive to least expensive for any particular item, as well as overall in terms of the Goods element of the basket, the services elements of the basket, and the overall most expensive city category.

The following comparison only compares rankings from those with the highest number to the lowest for each group – all goods (excluding wine since this is not available in all cities this year), all services (except university and boarding school since these are the same and only reflect currency movement not change in price) and then a combination of both.

When we look at the services area, we find that Hong Kong, Shanghai and Singapore are the most expensive cities for our featured services. These cities not only have a plethora of local talent to employ but are determined to compete on a global stage and attract international talent. Therefore it is not surprising that they are ranked as the most expensive in this category.

Chart 15: Julius Baer Lifestyle Index city ranking – by services, in local currencies



* Included all covered services except university and boarding school
Source: Ipsos, Julius Baer

Shanghai, Bangkok and Singapore top our tables for the prices of goods. Shanghai is universally expensive in most goods sectors including handbags, property, men's suits, watch, car, cigar and shoes. The leap from the top position to second and third place is a considerable jump. Singapore and Bangkok rarely top the tables as the most expensive for individual items, but they are both regularly in the top half of the rankings, with limited 'bargains', especially in the case of Singapore, placing them as universally more expensive on average as most cities.

Chart 16: Julius Baer Lifestyle Index city ranking – by goods, in local currencies

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

* Included all covered goods except wine
Source: Ipsos, Julius Baer

Our overall expensive market this year is Shanghai, which topped the tables for services and goods and the overall category. Shanghai was within the top 4 most expensive cities for thirteen of the seventeen compared categories.

Hong Kong and Singapore take a respectable second and third overall. Hong Kong's expensive cost for services and Singapore's relatively expensive pricing for all goods and services, with no bargains, firmly establish these three cities as the most expensive cities to purchase items in the Julius Baer Lifestyle Index.

Chart 17: Julius Baer Lifestyle Index city ranking – by goods and services, in local currencies

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

* Included all covered goods and services except university, boarding school and wine
Source: Ipsos, Julius Baer

A closer look at index items

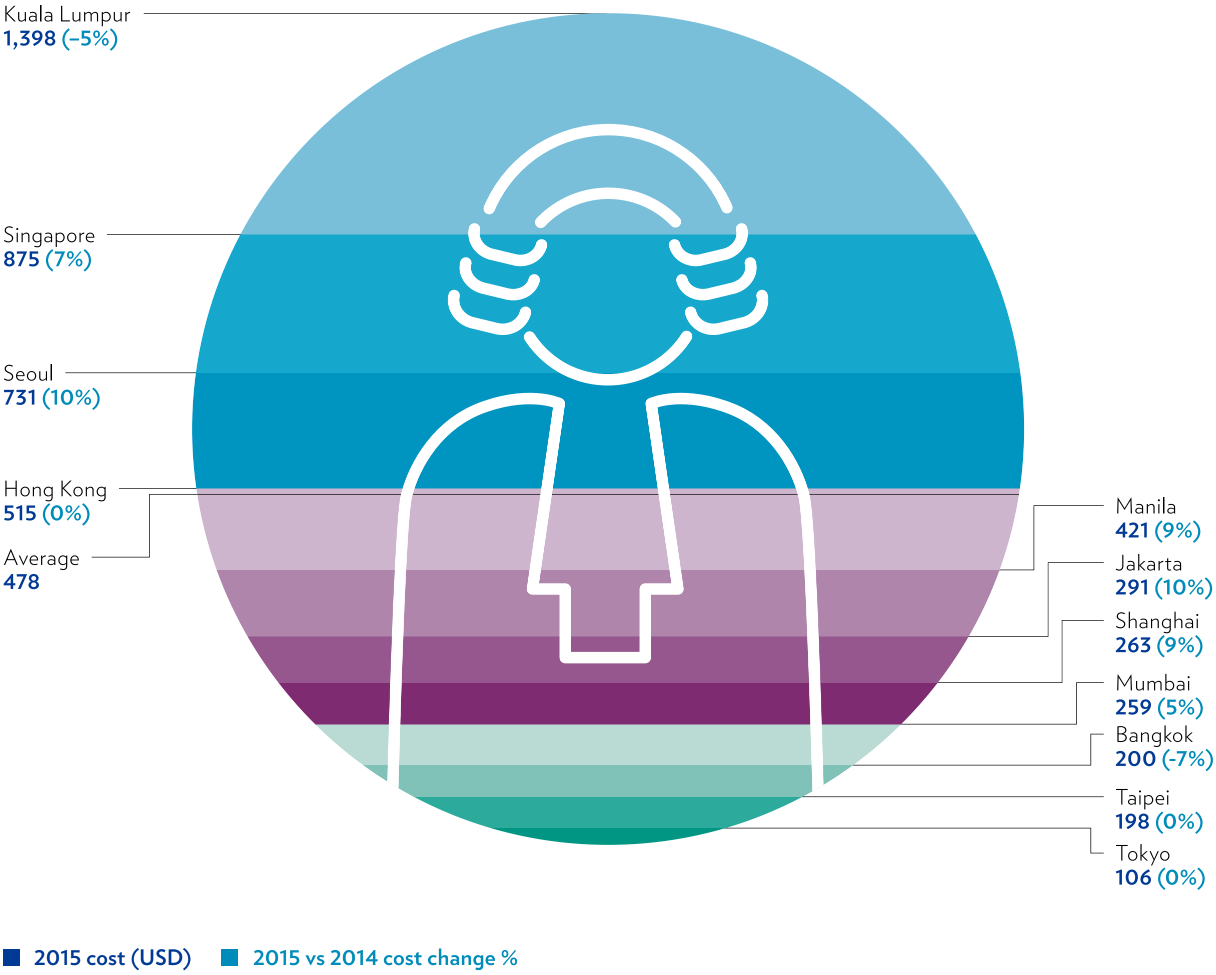
Every service and product represented in the Julius Baer Lifestyle Index tells its own story reflecting the pressures on the luxury sector, the influence of price drivers such as tourism and the price of oil, as well as customer demand. In the following pages we feature six services and five products in more detail.

Where there is a will, there is a way

In the Julius Baer Lifestyle Index we monitor the cost of a one hour legal consultation in the potential construction of a will. Historically across Asia the price has increased year–on–year from 2011–2013, small and steadily, less than 10%.

Legal fees are the most expensive in Kuala Lumpur. It maintains the number one ranking from previous regional comparisons, even though it is one of the only two cities which record a decrease in the price of legal feels this year. Six of our eleven monitored cities have experienced an increase in price including Singapore and Seoul who have, in Asia rankings, maintained second and third positions.

Chart 18: Lawyer's fees

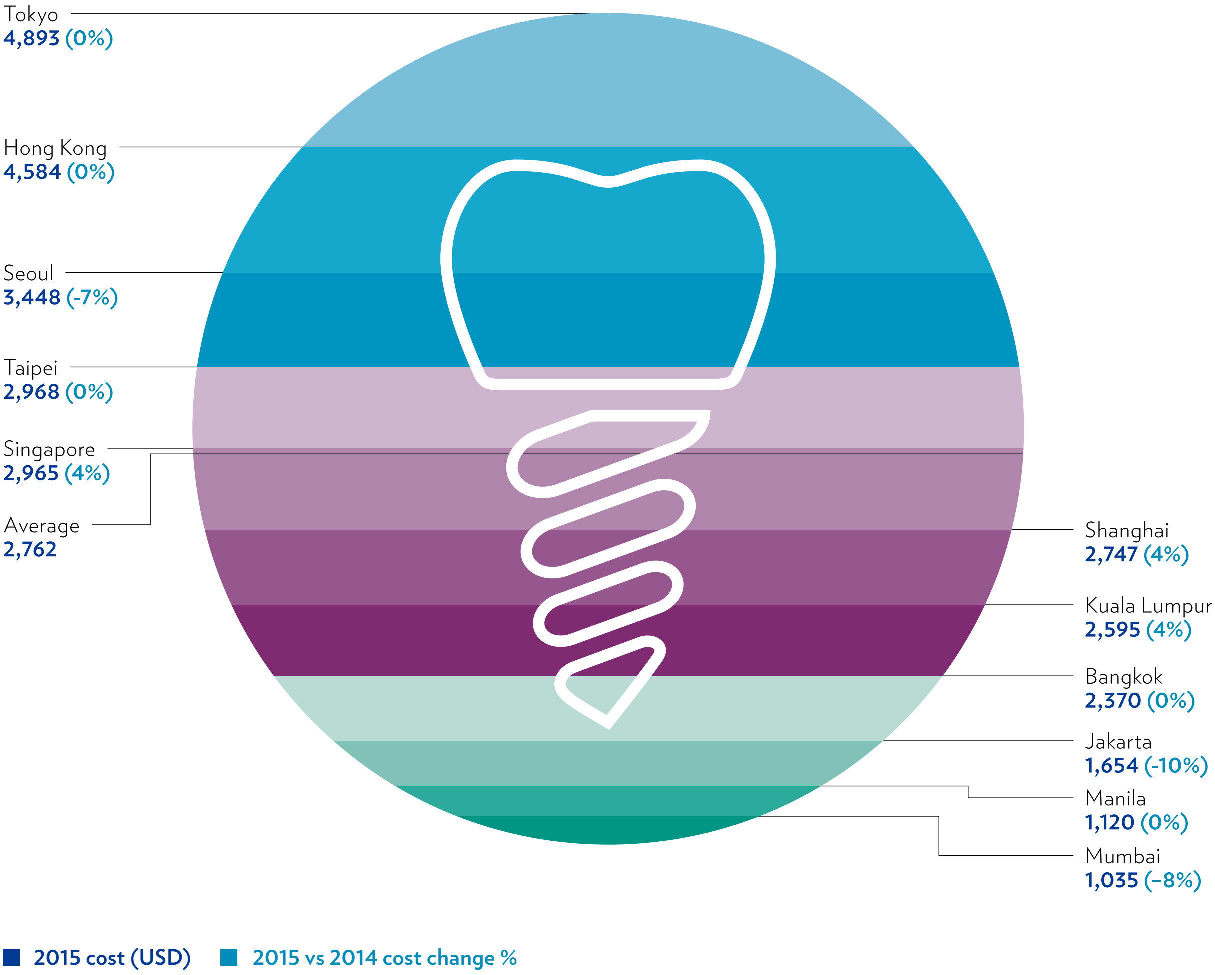


Source: Ipsos, Julius Baer

Something to smile about

Over the course of our data tracking for the Wealth Report: Asia, the price of high–end dentistry in Asia has generally increased year–on–year. 2014–2015 is the exception, this year is a small decrease. Only Shanghai, Singapore and Kuala Lumpur, buck the regional trend. For the majority of countries the price is relatively the same as it was last year. This is the case of Hong Kong and Tokyo which has traditionally been the most expensive markets for a dental implant. Mumbai has been the regions' bargain dental destination, and remains so with a year–on–year local price decrease of 8%. The Mumbai price remains a quarter of the price in the most expensive dental market in our Julius Baer Lifestyle Index which remains Tokyo.

Chart 19: Tooth implant



Source: Ipsos, Julius Baer

Facing stiff competition

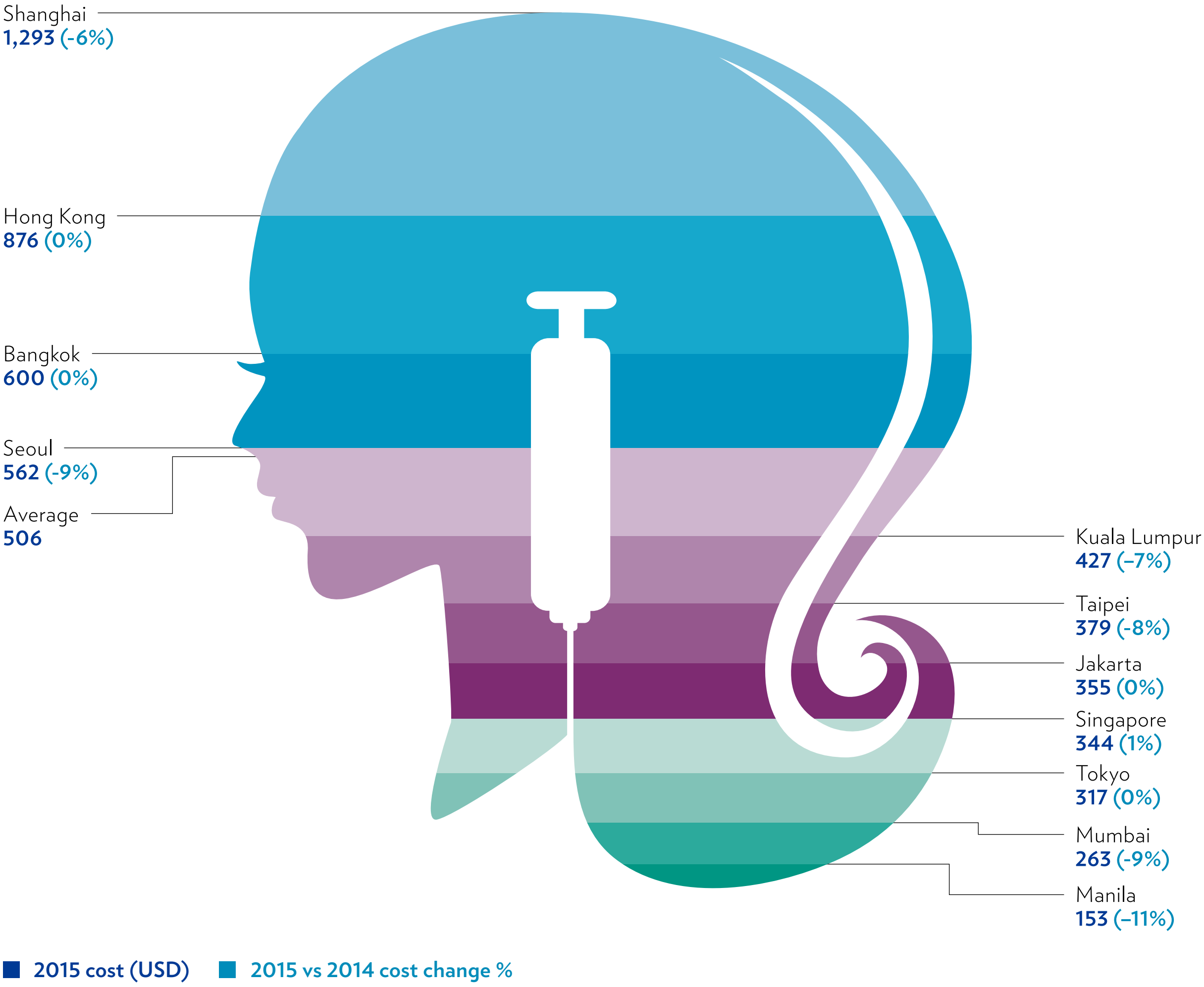
During the five years that we have been observing the Julius Baer Lifestyle Index, the 'facial asthetic' item had to change. One of the reasons for this is that certain items gain, and loose popularity. When we observe what are the most popular and common procedures for beautification across Asia, we started comparing the price of laser treatments. Those treatments then lost popularity, so we started to track the change of price instead of an asthetic 'mainstream' – botox. This year we note that this procedure has become more and more commonplace, to the extent that in future years we may find that it is not part of the life of the UHNW individual but the (wo)man in the street.

According to Global Data pharmaceutical revenue figures – Botox was one of the top 50 beauty products sold worldwide last year. Year–on–year growth is 13%, with global facial aesthetics revenue forecast to reach USD 5.4 billion by 2020. In tracking the price of botox across Asia, we saw the price increase in 2011, 2012 and 2013, but the price has decreased in general over the past 2 years, including this year.

Only Singapore experienced a marginal price increase this year at 1%. Six out of the eleven cities experienced a decrease in the price, leading to an average decrease of 4.38%. Seoul, Mumbai and Manila experienced the greatest reductions. This may be due to new brands of Botox coming onto the market, particularly from Korea.

The most expensive place to obtain the botox service remain Shanghai and Hong Kong. Manila and Mumbai continue to be the relatively cheapest markets to purchase the botox service.

Chart 20: Facial asthetic (Botox)



Source: Ipsos, Julius Baer

Please make up (or down) my room

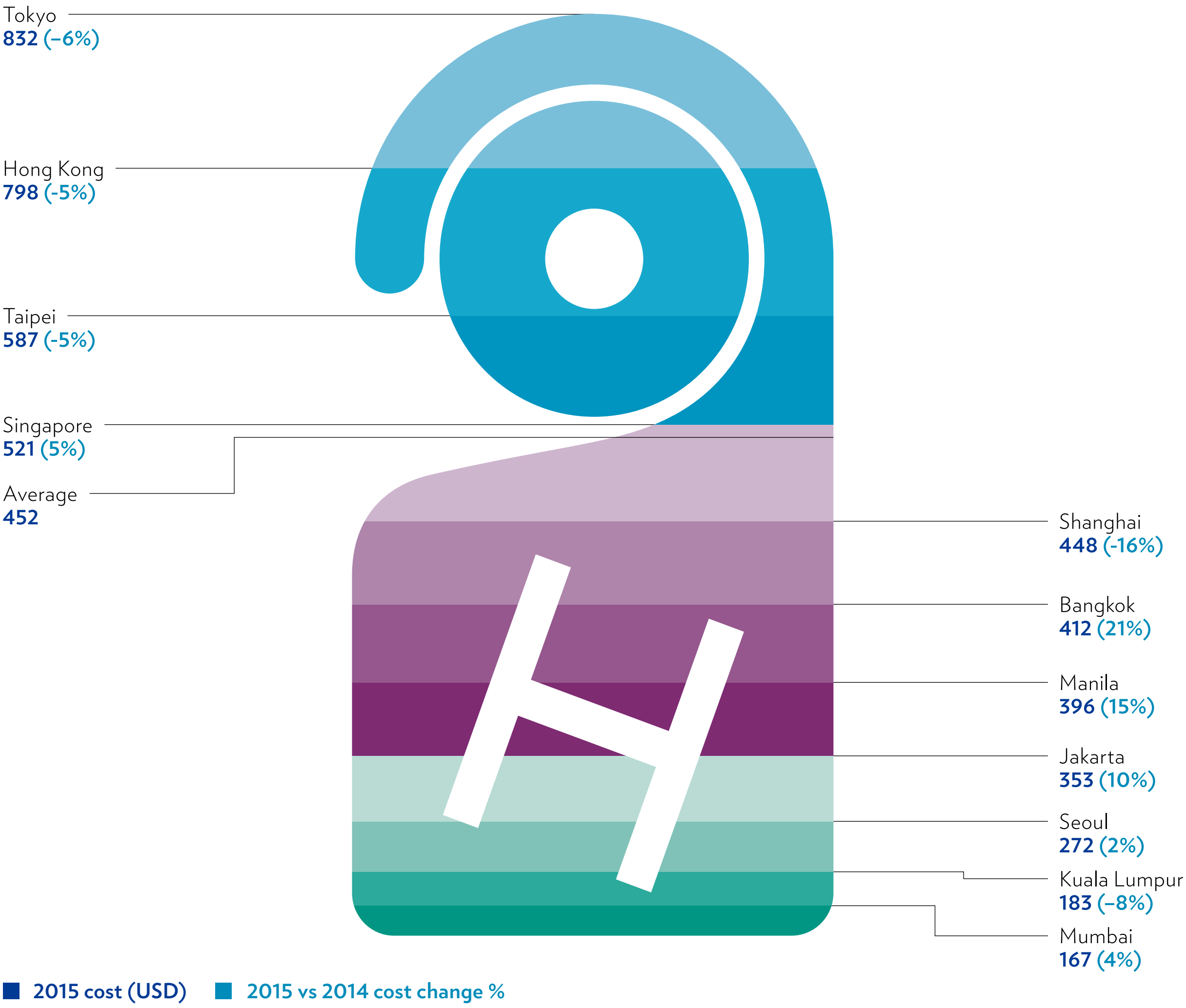
In the Julius Baer Lifestyle Index, the price of hotels is featured as the cost of a suite in a 5 star centrally located hotel. The price of a hotel suite can vary greatly around the region, with the prices in the more expensive cities, Tokyo and Hong Kong traditionally being 4 times the price of hotels in Mumbai and Kuala Lumpur.

Consecutively Tokyo remains one the most expensive capital of the world to live in, and the price of a hotel site confirms this. Some positive news for consumers is that prices in the top three most expensive cities: Tokyo, Hong Kong and Taipei have decreased on average around 5.14% year–on–year. While the Asian average price has increased by 1.49%.

Some cities though do buck the price reduction trend. Among these is Bangkok, where a 21% increase could be seen more of a readjustment to the price after prices dropped in response to tourism reservations after domestic political upheavals.

One issue we may need to consider in the future is the influence of room–sharing sites. Whilst in public hoteliers seem to shrug off concerns about such sites, there is certainly more competition to hotels from a non–traditional competitor.

Chart 21: Hotel suite



Source: Ipsos, Julius Baer

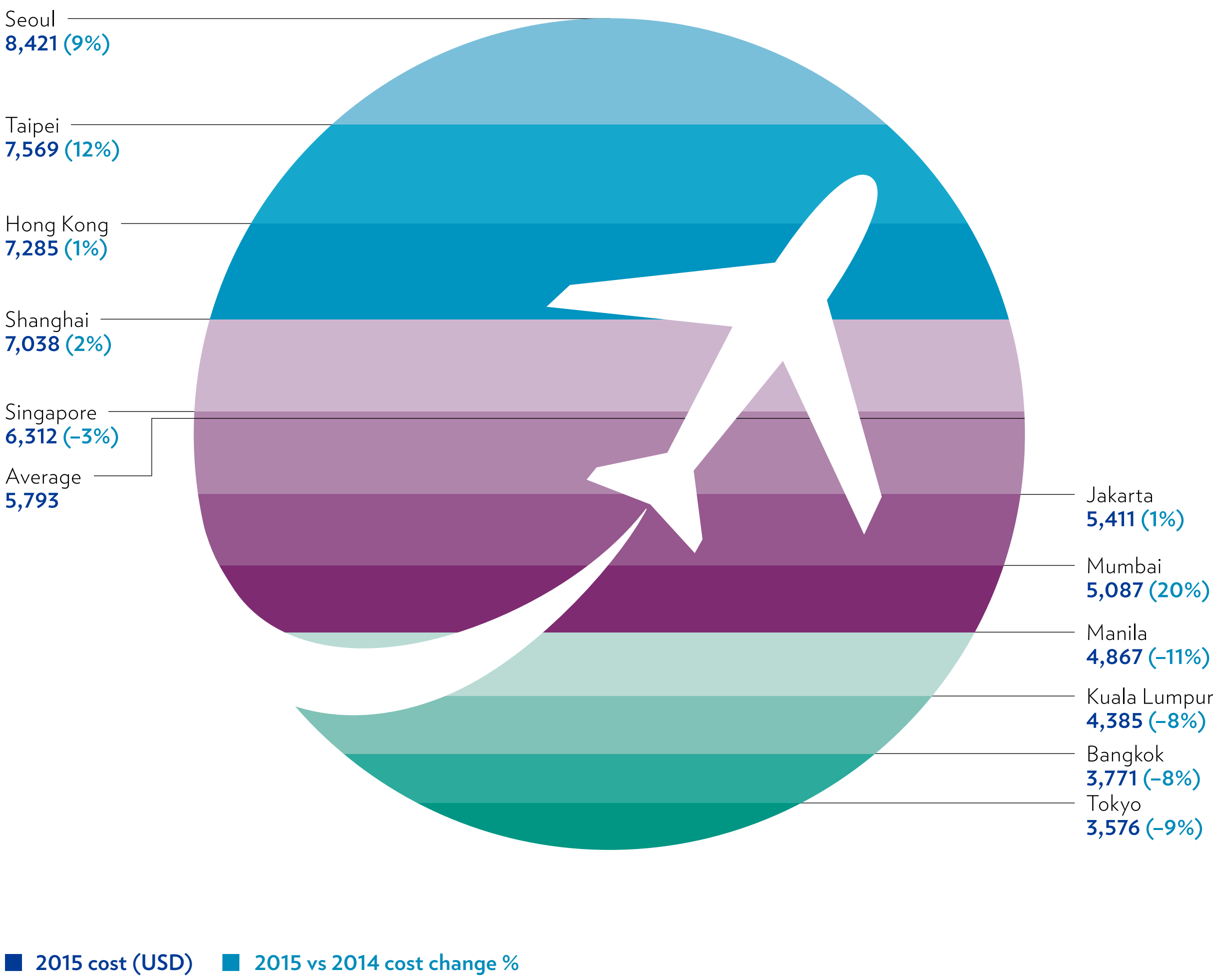
Steadily ascending

In the Julius Baer Lifestyle Index we match each city in Asia's price for a round trip, full fare, business class travel to London and New York – reviewing 5 separate airlines with global networks, and some cases requiring stopovers. Within the index, the fluctuations of these prices from year to year are relatively high. The average price across Asia is USD 5,793 in 2015.

The largest US dollar decrease in prices were registered in flights originating in Manila and Tokyo this year. Out of the eleven cities monitored, six cities experienced an increase in prices. This year the fuel prices are not the decisive driver of these price changes as they have been in the past. The overall change in the 2015 index has been a slight average increase of 0.65%. The historic change, looking since the index began, had been 3.16% increase per year.

The most expensive city for this trip remains Seoul. The rest of the top five most expensive cities for a business class flight include Taipei, Hong Kong, Shanghai and Singapore. The continual 'bargains' for these trips are journeys originating in Kuala Lumpur, Bangkok, and Tokyo.

Chart 22: Business class flights



Source: Ipsos, Julius Baer

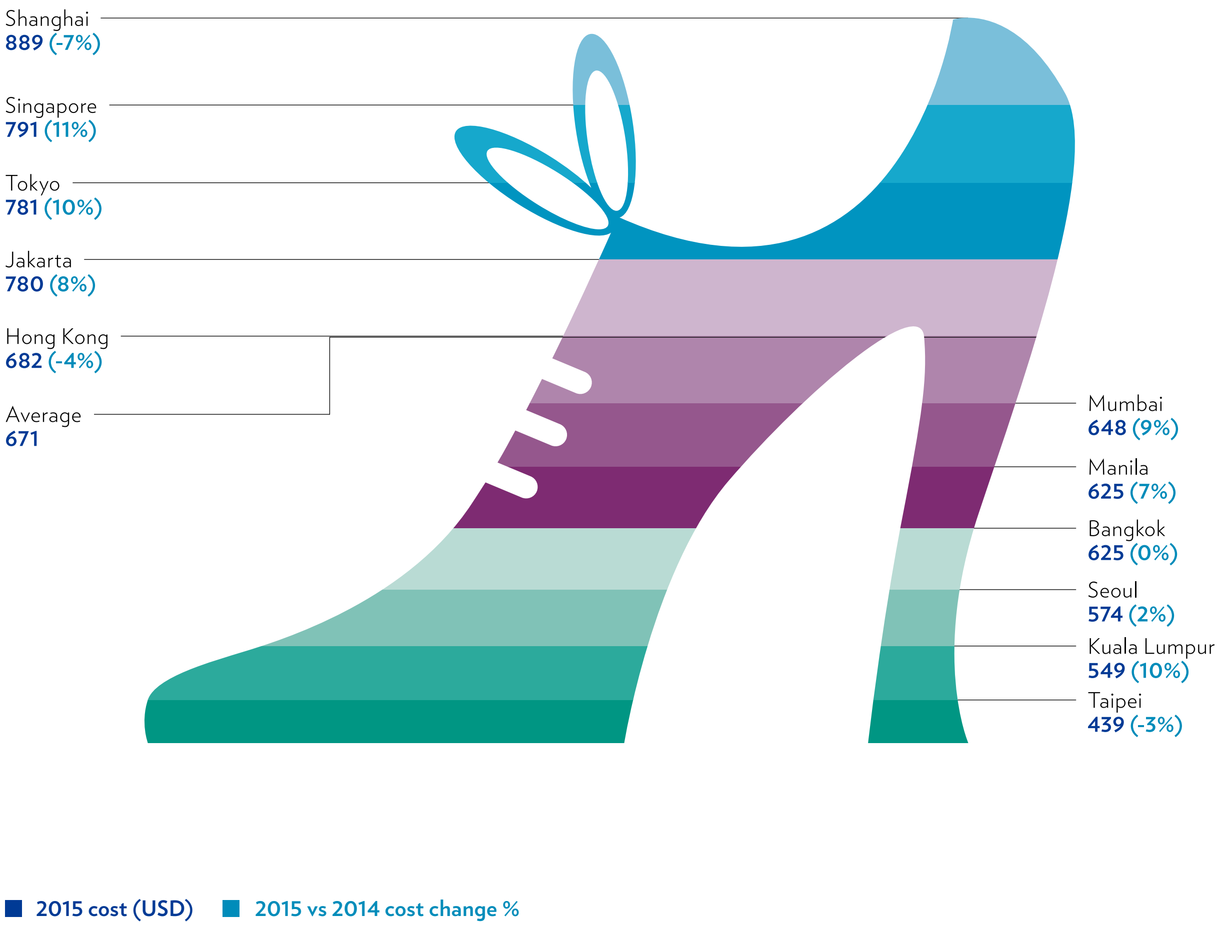
High (priced) heels

The classic black Louboutin pump with an 85 millimetre heel has continued to hold its ground. The Julius Baer Lifestyle Index, now in its fifth year, notes a general increase of around 3% year–on–year from 2010 to 2014. This year the average price increase across the region is of similar pattern, with a 4% increase in price.

Comparing the prices across the region, there is some variation. In the three Greater China cities: Shanghai, Hong Kong and Taipei – have seen decreases this year. They are the exception to the Asia story with seven of the eleven cities seeing increases in the price, the largest of which was in Singapore. This is explained in the context of last year's Julius Baer Lifestyle Index, where it was observed that the prices of this ladies shoe increased in every covered market, except Singapore.

The most expensive shoe markets in the top five cities remain the same, with some small rotations among those holding rankings of second to the fifth place. Shanghai remains the most expensive market, despite the price reduction. The other top price markets remain Singapore (up this year because it has the largest price increase year–on–year), Tokyo, Jakarta and Hong Kong.

Chart 23: Ladies' shoes



Source: Ipsos, Julius Baer

Burning at both ends

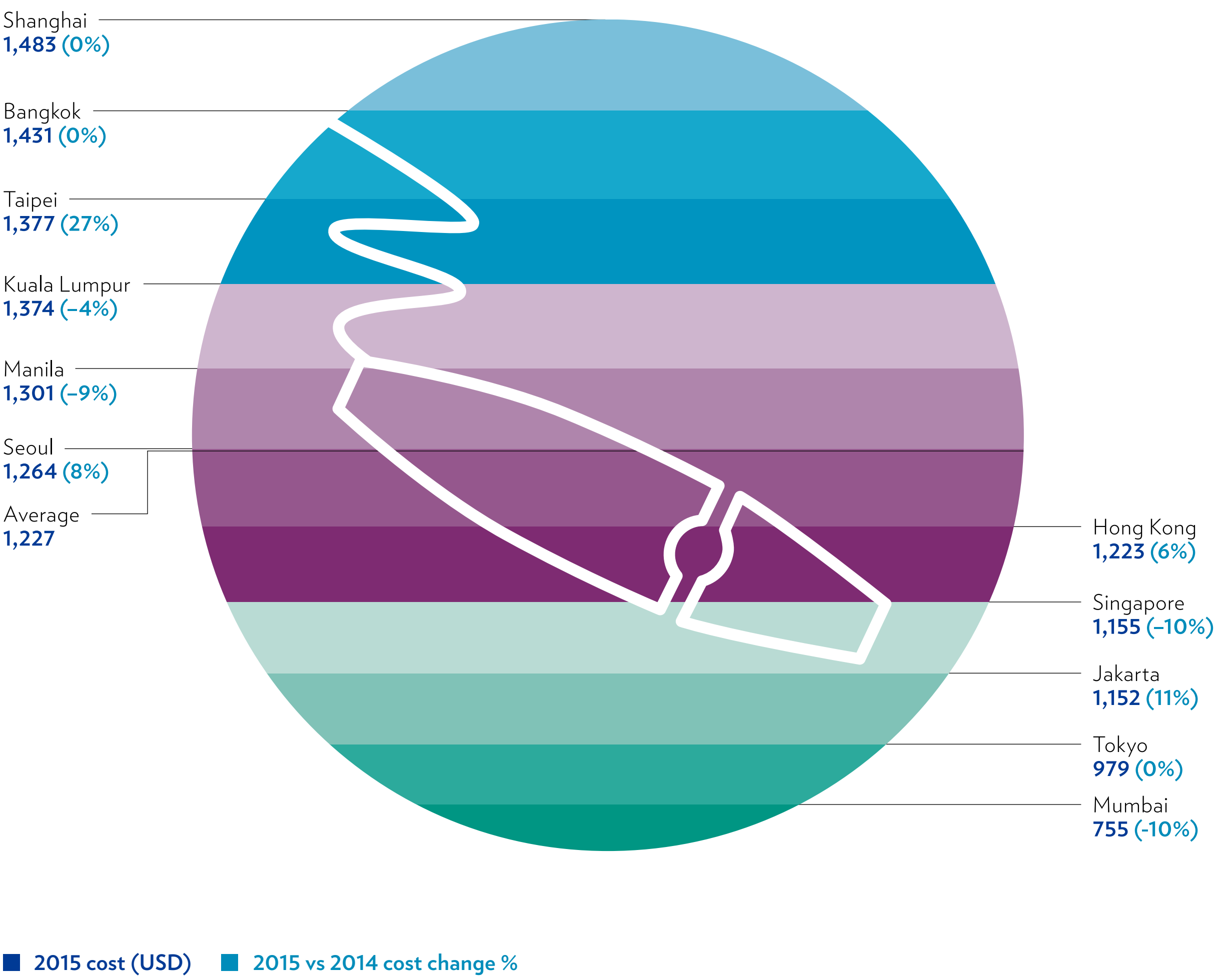
Taipei is one of the six cities that had a decrease in price of cigar last year. This year Taipei prices have bounced back with a considerable increase of 27% change, following a preceeding year with 17% decrease. It seems the cigar price can get burnt at both ends.

Over the past observation period we see the price of cigars both increase and decrease in Asia. Four of the markets experienced an increase in price and four saw a decrease.

Historically the price has had nominal increases (4.18% and this is also the case this year (1.77%)). This year in particular the increase indicates a strong regression of the mean and does not explain the deep variance in prices across markets.

Shanghai remains the most expensive market to buy a cigar, and Mumbai remains the lowest. In the middle of the rankings we see some changes of relative price positions year–to–year.

Chart 24: Cigar per box



Source: Ipsos, Julius Baer

All that glitters

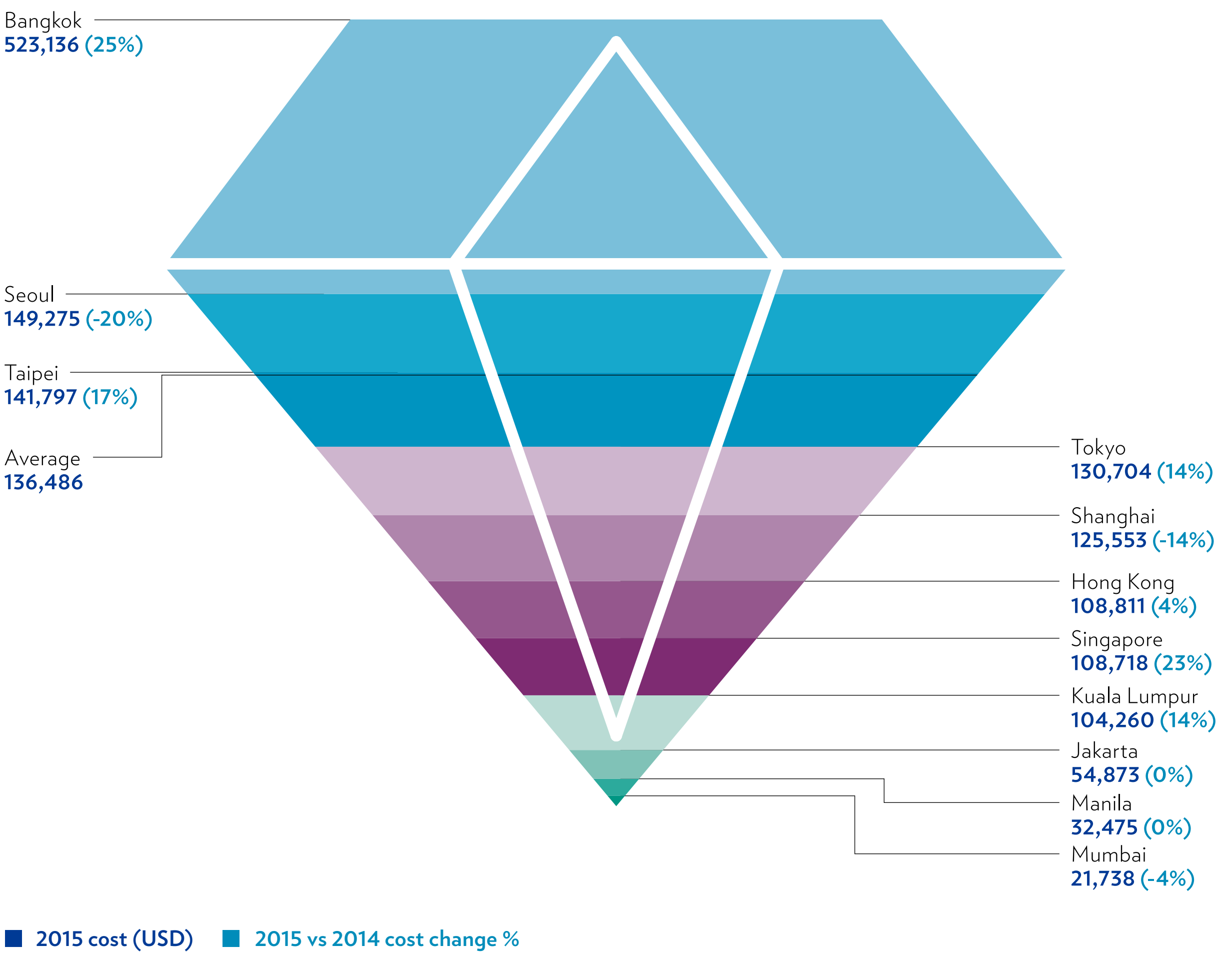
Within the Julius Baer Lifestyle Index, jewellery is the hardest thing to track in terms of price changes year–to–year. Our jewellery item is an diamond 'engagement style' ring – a Tiffany setting in which the diamond is 2.2+ Carat, E/D colour, and VS 1 or 2.

Due to the opaque pricing of precious stones, and the difficulty to find equivalent stones per market for year–to–year comparisons, these patterns have more inherent data inconsistencies.

That said, the price in the pattern of costs of diamond rings throughout Asia seems to have been maintained over the past year's observation period with an average increase of 5.32% across markets. In particular Hong Kong, Singapore, Taipei, Kuala Lumpur, Bangkok, and Tokyo all saw increasing prices.

According to comparisons made within the Julius Baer Lifestyle Index, Bangkok remains the most expensive market in terms of price, but paradoxically is the market where finding equivalent rings year–to–year is the most challenging. Other expensive markets are Seoul, Taipei, Tokyo and Shanghai. The 'bargain' markets remain Manila and Mumbai.

Chart 25: Jewellery



Source: Ipsos, Julius Baer

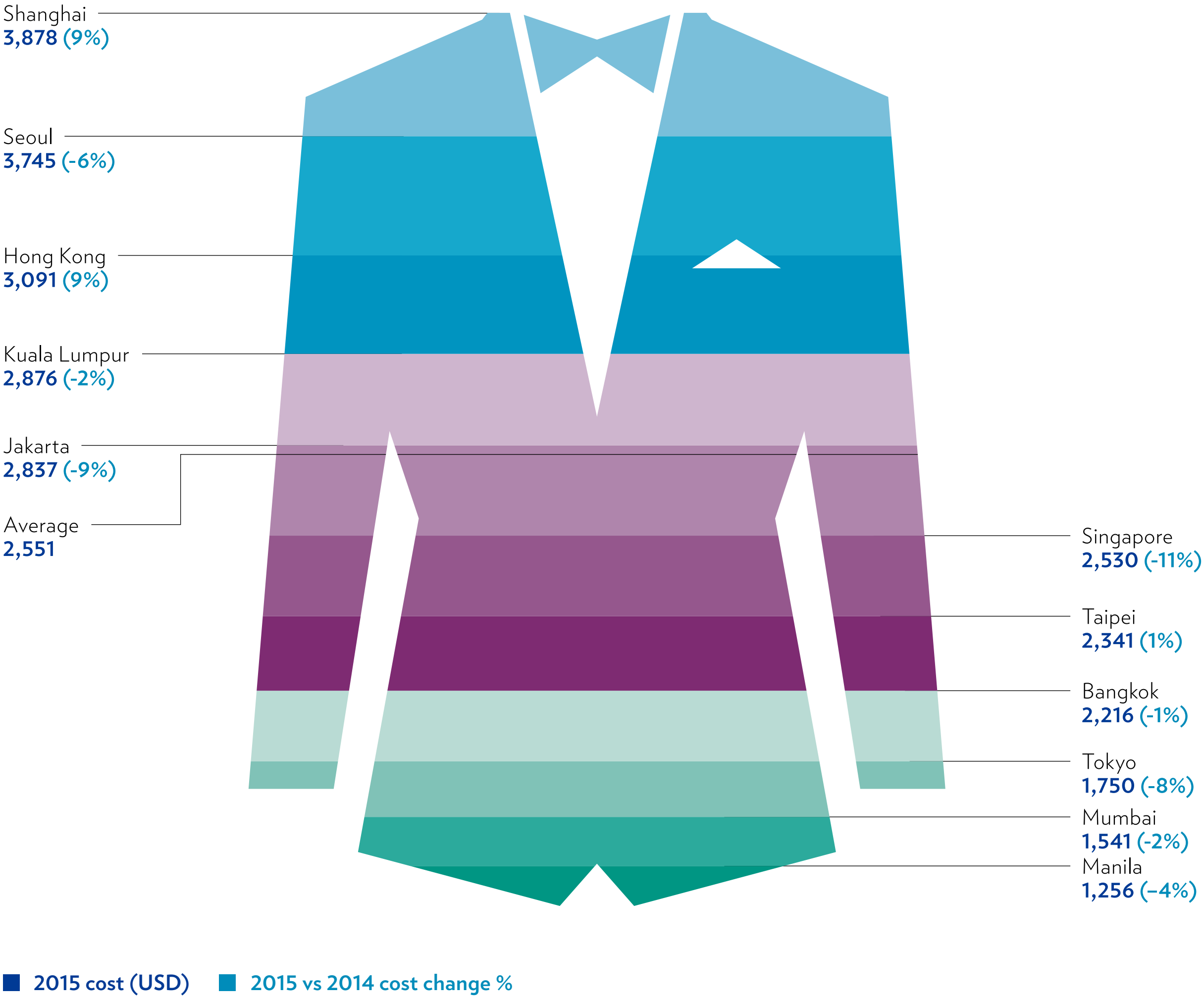
Sharply dressed for less

The Julius Baer Lifestyle Index tracks the consumption of luxury menswear – a Giorgio Armani suit – 2 button, no pattern black suit. During the five years of tracking the index, the price of this suit has on average decreased. This year, prices of these items decreased for the second consecutive year. The three cities which experienced an increase in prices in 2014 have now seen a reversion of that increase.

Singapore's decrease in price was the biggest and this is the second consecutive year of sales in these items. In Shanghai, the price rose for the second consecutive year in a row. This city is the most expensive city for this suit, and has traditionally been among the top three cities for cost. Given the boom of the China market over the past few years, this may not be much of a surprise.

Mumbai and Manila remain the place to get a 'bargain' Armani. The price in Manila is almost one third of the price in Shanghai.

Chart 26: Men's suit



Source: Ipsos, Julius Baer

The disappearing hero

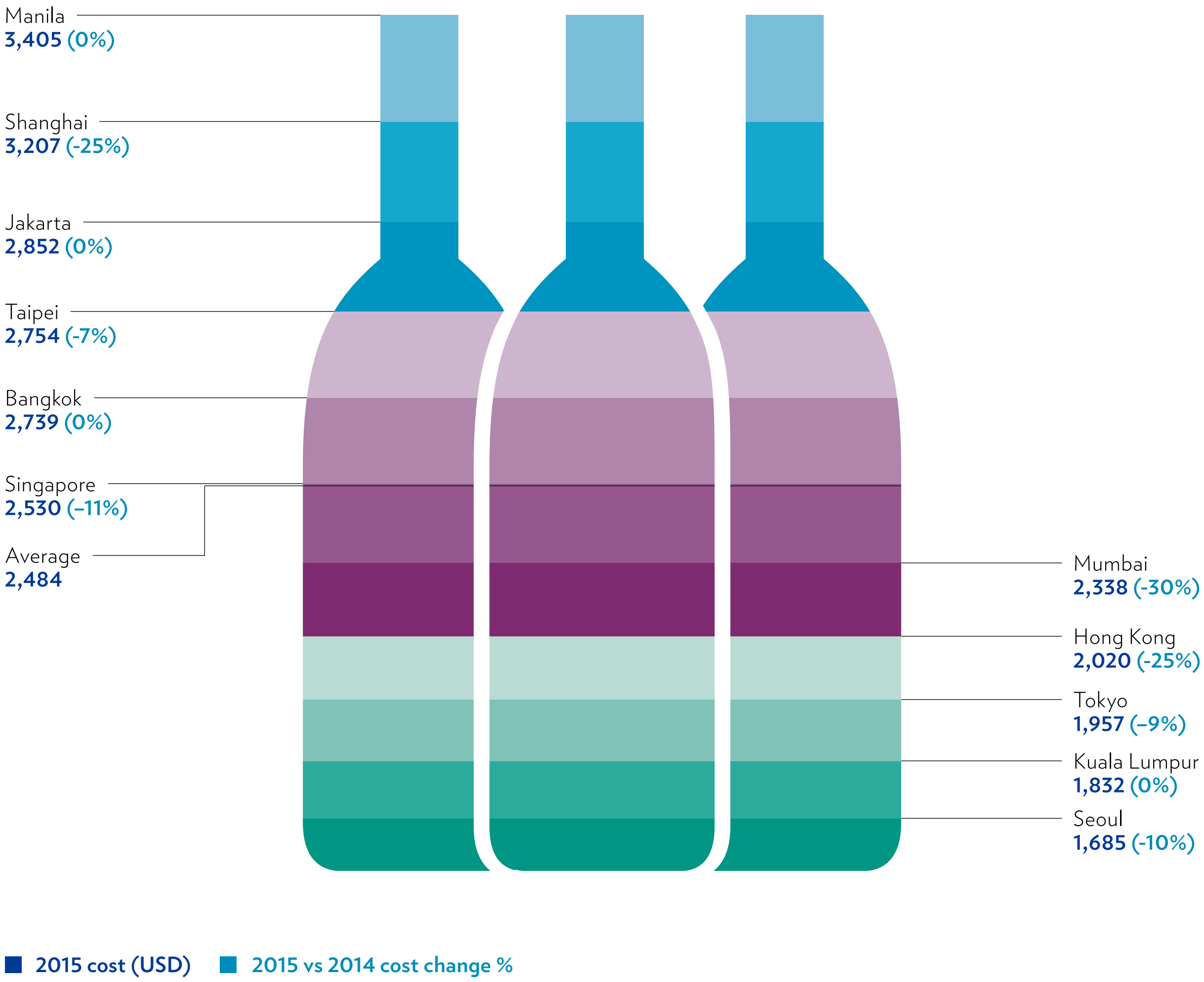
This year we had a particular challenge obtaining regional pricing for our hero wine, the Lafite Rothschild 2000. It could not be located in Kuala Lumpur, Jakarta, Manila and Bangkok despite repeated searching. Had it really disappeared from existence? Simon Tam, Christies Head of Wine in Asia thinks not. "I strongly suspect that after a few years where the price of some hero wines has taken a hit, it will appear more appealing to not sell the wine rather than have to sell it at a lower level". The Lafite has not disappeared; it has gone back into store to be celebrated on a more auspicious (pricing) day.

The red wine in our basket has experienced volatility in pricing during our 5 years of data collection with a historical year–on–year change of +4.33% over a 5–year period. This year the wine price is down in almost all markets – almost double digit changes across the board, with an average decrease of 10.7% .

What is happening to the world of wine? Simon Tam explains: "Hero wines, of which the Lafite is one, captured the imagination of new collectors. These collectors are different from the established collecting market, they are more fickle, moving from one chateau to the next to continue a must have a 'hero' mentality. Mature or established collectors traditionally purchase 'palate pleasers which have a great price point' instead".

In terms of what will happen in the next few years in the wine market, Tam suggests, "these heroes will always be more sensitive than other wines in terms of popularity. The wine market overall is starting to stabilise after a few bumpy years and we expect collectors to move away from only the label wines of those which have greater perceived price point value".

Chart 27: Wine



Source: Ipsos, Julius Baer

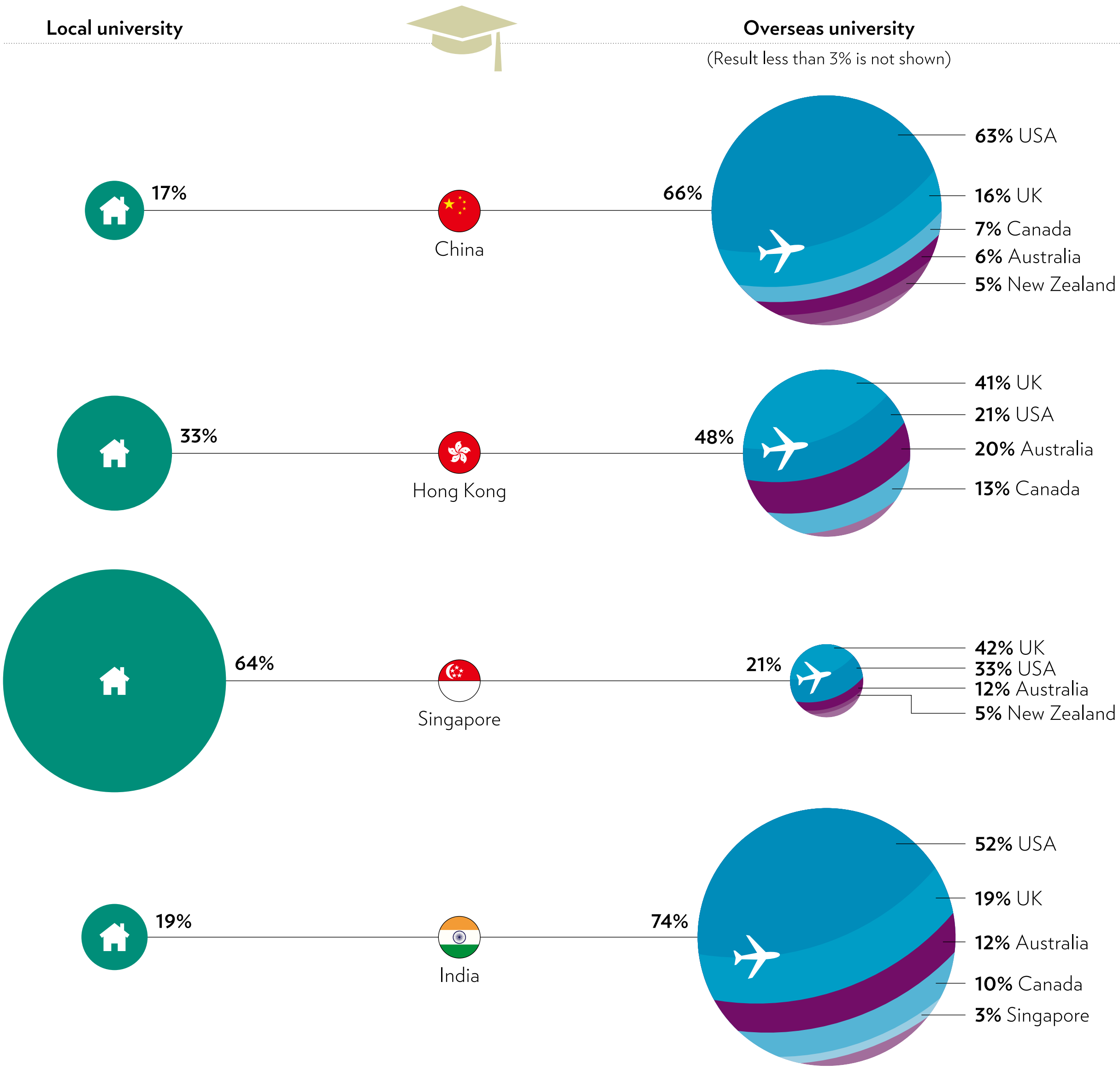
Stable Education

Education, and in particular our index monitoring of university fees, has been extremely interesting during the 5 years that the Julius Baer Lifestyle Index has been going.

The price of boarding schools and university fees has increased less this year than any other year in our data observation record (i.e. since 2010). This is noteworthy because we have recorded double digit growth for the previous 3 years, particularly in university fees.

In our 2014 report we had a section dedicated to Asian parent's aspirations for their children in terms of educational agendas. There was a strong preference for Asian parents to have their children study overseas, with the strongest preference for US universities. Even whilst we recorded this overarching trend we see budding interest in a broadening of choices. We suspect that there is still demand for the top schools and universities that we explore in our index (Eton, Harvard, Oxford). After a few years of volatile markets parents would be exploring a broader range of choices. Hence we see the end of

Chart 28: Type of university parents expect children to study, 2014



Source: Julius Baer

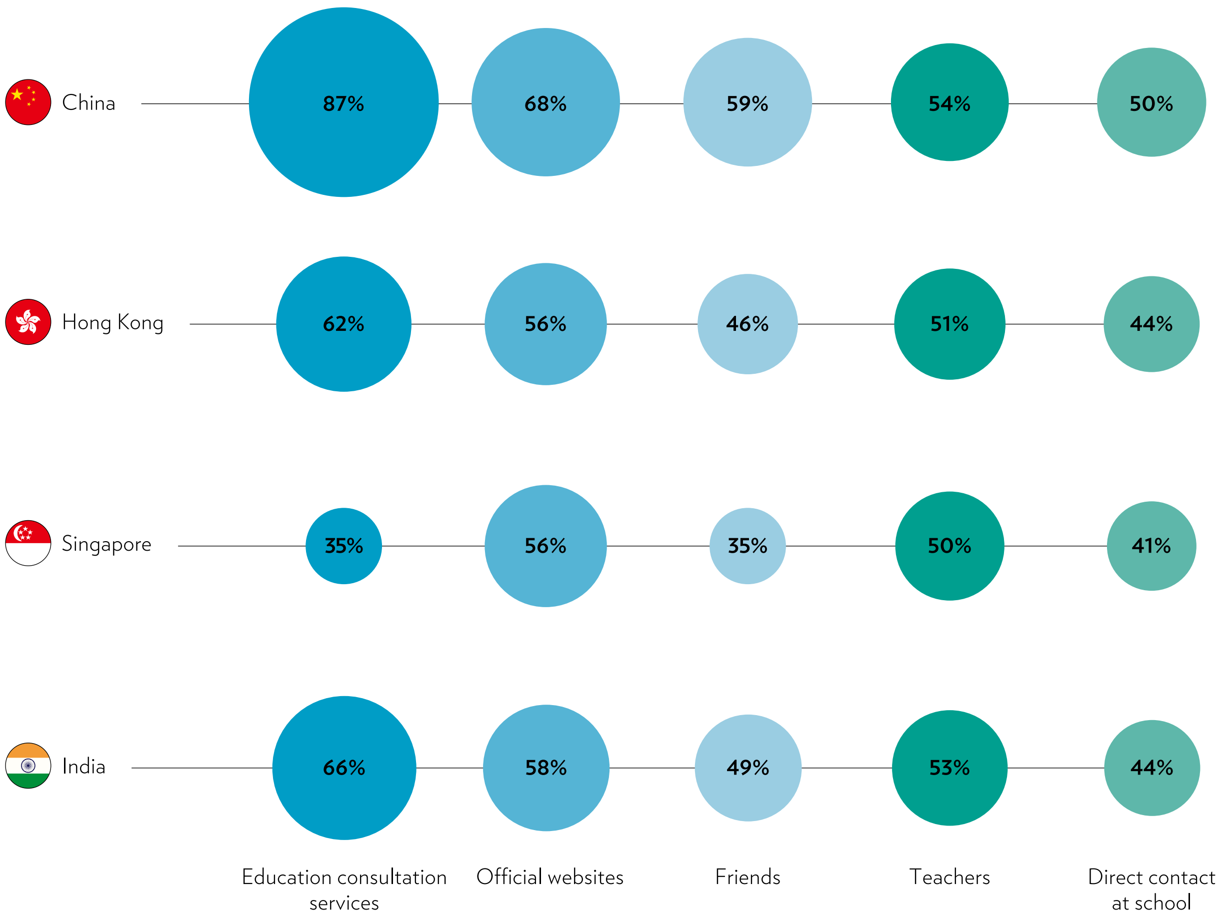
what could have been the double digit era. This change of pricing pattern may also be driven by other factors such as luxury at home, the influence of educational consultants, and a developing preference for home universities.

There is certainly more choice of top schools in Asia. International schools such as Harrow, Dulwich, and Epsom College all now have campuses in Asia. Whilst the appeal of the original school may be slightly higher, this still offers more options, closer to home.

The broadening of selections is often something introduced by educational consultants, who will encourage parents to think more broadly in terms of schools which will best fit with their children. In markets such as China and India there is a particularly strong use of educational consultants (in China 87% of parents say they use this service, in India 66% of parents reported using educational consultants) .

We may also be seeing a growing trend toward local universities in Asia, many of which have good global reputations. In our Education research in 2014, we noted that affluent parents in Hong Kong (33%) and particularly in Singapore (64%) expressed their interest for their child to study at a local university. Since our research measured aspiration rather than actual choices, we think this trend may continue to flourish and affect the attraction of overseas universities in the long term.

Chart 29: Source of information about children's education, 2014



Source: Julius Baer

The basket of the future

Over the past five years some items within the Julius Bear Lifestyle Index have been tweaked or replaced with a similar item. This is for the purpose of maintaining that the item measured is a popular proxy for the category it reflects, and is the most current popular item which is universally available across Asia.

If we imagine the world in ten to fifteen years it will be valuable to speculate as to what must have items will remain in the basket of goods and services measured for the Julius Baer Lifestyle Index. In this special section we share our thoughts on the basket of the future. The following table explores the continued viability of each item in the Julius Baer Lifestyle Index basket of goods and services.

It is our considered opinion that half of the items (highlighted in blue) will not change over the next fifteen years, at least three (highlighted in green) are likely to change and another six items (highlighted in purple) remain as 'watch this space'.

ITEMS	2015 ITEMS	BASKET OF THE FUTURE
Services		
	Business Class flight from local city to London and New York	We see that this item will remain a necessary item of the basket in the future. There are no indicators that people wish to travel less. Research from Ipsos luxury on the continuation of growth in luxury travel indicates that all over the Greater China region, consumers indicate that they wish to travel more in the future.
	Residential property with around 4,000 square feet in prime location	This item is one of the most volatile in the index changing an average 5.8 percent a year (when averaged across 11 markets and 5 years). This necessity of this item to be in the basket will not change in the next 15 years.
	Wedding banquet at Four Seasons / Ritz Carlton / Shangri–la	The wedding industry in Asia seems to continue to grow given the young age of the populations in this region. As the divorce rates in Asia continue to grow, there may even become a special need for second, third and even fourth wedding ceremonies.
	One night room price of the Executive Suite / Delux Suite in Four Seasons / Ritz Carlton / W Hotel	Whilst this is a highly debatable topic and those in the hotel industry would tell readers there is a greater need for more hotels to accommodate the growing demand of high–end hotel rooms in Asia, it is interesting to consider the potential effect of home swapping and temporary rental platforms and home sharing as an alternative. Their offerings are moving into high end offering of the home–for–share spectrum. There is also growth in the area of dedicated boutique high–end hotels which have only suite level rooms. For these reasons we suggest that there may be a possible change in the future.
	Tooth implant for one of the molars at top dental clinic / hospital	High–end dentistry is also only gaining in popularity. There may be a viable alternative to the tooth implant in the future so this item may need to change. Additionally for cosmetics purposes we could consider the cost of a full set of cosmetic veneers as part of the basket of the future. Looking good and longevity are important trends in Asia, the necessity to have aesthetically pleasing teeth, in addition to good dental hygiene, may require a change to this item.
	One night hospital stay in Private room	There is a growing development of high–end hospital care in Asia. This item is unlikely to change.
	1 year membership fee of top golf clubs in the region	The golf club membership is also one of the more volatile items within the Julius Baer Lifestyle Index. Over the past few years, we have noted that when golf memberships become a lower priority in the lives of UHNW individuals, the price that clubs can change is put under pressure. Whilst there is no immediate replacement – in the next few years we will also start to monitor the price of tennis clubs and yacht club membership, or ownership of a pleasure vessel as an possible alternative in the basket of the future.

■ No change ■ Adaption may be required ■ Change is likely

Simple will for 1 hour consultation	Legal fees are a staple item in the Julius Baer Lifestyle Index. Since legal fees are a set by a combination of local demand and the price required to supply a suitably trained and locally licenced professional, we believe that, as long as there is local demand, the item will remain relevant. As family legacy and philanthropy become bigger trends in Asia. The need for a personal will may be embedded inside a trust and transition plan to move wealth and values from one generation to the next. Therefore whilst the shape of the deliverable may change, the demand for the service seems unlikely to change.
Botox treatment at top private hospital / facial clinic in the region	Over the course of the data monitoring for the Julius Baer Lifestyle Index we have had to replace one facial treatment for another and it would make sense that we may change it again in the future. The item we used to measure investment in beauty was laser facials. The specific treatments across Asia varied significantly so that the treatments were challenging to make comparable. Enter the Botox era, which is now expanding more into the mainstream experience to such an extent that these treatments are now available to the mass market in many Asian cities, and cheaper alternative Botox like products are starting to flood the market. In the basket of the future it may be the regular relationship with a cosmetic dermatologist that would be the go to item, not the visit or the treatment itself, but the extent to which regular visits are a requirement of the UHNW lifestyle.
Eton sixth form	Boarding schools remain popular. Many of the international boarding schools are setting up in Asia such as Harrow and Dulwhich. This is to address growing demand for top school programmes, which will continue to keep the attraction of boarding schools in the US and the UK as well. We believe that there will be no need to change this item for the basket of the future.
Oxford – Said Business School Executive MBA programme and Harvard Business School – Executive MBA programme	Up to this year, the change year–on–year in the price of Harvard or Oxford university fees for Asian applicants has experienced double digit growth. This price hike has been partially driven by growing demand and interest among Asian parents which we captured in our research on this topic in the 2014 report. What we also noticed at that time is an interesting local trend – there seems to be growing interest in local universities in Asia, many of which have high global rankings. In the future the best local university price may also be worthy to be explored.

Goods

Rolex DAY–DATE II – 218238 Oyster, 41 mm, yellow gold	Jean Claude Biver, the President of the Watches division for the LVMH, speaking at the Julius Baer Next Generation Summit in Shanghai in 2014 was tackled with the topic of the future of luxury especially for the watch industry. His comment is that luxury watches are more than a simple timepiece, they are a lifestyle statement. An i–watch or a pebble may be a cool gadget but one will never save such an item for the next generation as one will of a high–end timepiece. For this reason, whilst we see a broadening of this offering, we believe that an entry level luxury watch, such as our Rolex, will remain part of the Julius Baer Lifestyle Index for the foreseeable future.
Miss Dior bag	Whilst the prices of luxury items have experienced some correction within this year, we do not see the demand for ladies handbags or shoes changing in the next ten to fifteen years. Certain handbags go in and out of fashion, which is why we have a timeless item included in the index. As long as the Christian Dior brand remains attractive, our handbag need not change.
Lafite Rothschild 2000	This year our hero Lafite wine almost disappeared. Not only will we need to cast a broader net of wines in the future we may need to even consider separate items. Simon Tam, Head of Wine China at Christies has suggested that basket of wine, including the Lafite might be helpful in the future. The rest of the basket would be made up of a strong performing Burgundy, Bordeaux, and one of the top champagnes. The other alternative to consider will be to note the growing development of Whiskey pricing especially the Macallan from the 1960s or 1970s or 10 to 20 year old Sake.

No change　Adaption may be required　Change is likely

Christian Louboutin Pump 85mm Black colour	Whilst the prices of luxury items have experienced some correction within this year, we do not see the interest in ladies handbag or shoes changing in the next ten to fifteen years. Our classic Black Louboutin, may need to change. If we note that the Louboutin group's shoes lose their fashion appeal it may be necessary to change to another master luxury shoemaking brand.
The Tiffany Setting **Platinum engagement ring with below diamond:** **Diamond size: 2–2.3 Carats** **Diamond color scale: D/E/F color** **Clarity : VS1/VS2**	This item is particularly sensitive given the lack of transparency in the pricing mechanisms determining the price of an individual stone, speculation regarding the real readiness of supply, and questionable methods of 'harvesting'. As consumers' awareness of these issues continues to expand, we believe that it is possible that diamond rings may become unpopular in future. Whilst this speculation may be possible to understand, finding an embellishment replacement is quite a challenge as well when it comes to the category of self–adornment. Therefore we suggest that this item might change, but, not quite yet.
Giorgio Armani suit – 2 buttons, Black, no pattern	Fifteen years ago when the dot com bubble was embracing the world economy it seemed that classic suits may become unpopular and black polo shirts would become the go to uniform for the following decade. Now that the polo has been committed to the back of the wardrobe, the Armani style men's suit continues to reign supreme in the world of the sharply dressed. We see this item will still have a place in the basket of the future.
Steinway & Sons Grand Piano	Playing instruments in Asia remains an incredibly popular activity. Whilst space constraints might dictate a movement to smaller instruments such as the violin, the popularity of competitions such as the Steinway competition at the piano, continue to keep the piano in pride of place. We expect the Steinway Grand piano to remain in the basket of the future.
Mercedes Benz SL550, Black, Standard version	Whilst luxury transport such as Bentleys, Mercedes and Rolls Royce items are often a stable of the luxury household, there can be no doubt that alternative energy cars are starting to make their mark in the luxury car market. The strength of the growth of electric cars is closely related to the development of a specific type of UHNW individual. Cars such as the Tesla or the BMW i8 are targeted beyond consumers who simply want to lower their carbon footprint, to those who are evolving in the world of tech savvy luxury. Hence the development of millionaires attached to the tech sector bodes well for luxury tech cars, over those which are reliant on fossil fuels. This trend is developing, and should electric cars overcome challenges presented by battery size, life and weight, they may provide a viable competition to be the featured vehicle within the Julius Baer Lifestyle Index.
Cohiba Siglo VI box of 25 **6 Ring Gauge: 52**	Whilst smoking laws have evolved all over Asia, the appeal of the cigar has not abated. We do not see this item being removed from the Julius Baer Lifestyle Index basket of goods and services in the near future.

■ No change ■ Adaption may be required ■ Change is likely

INDIA: A GLASS HALF–FULL

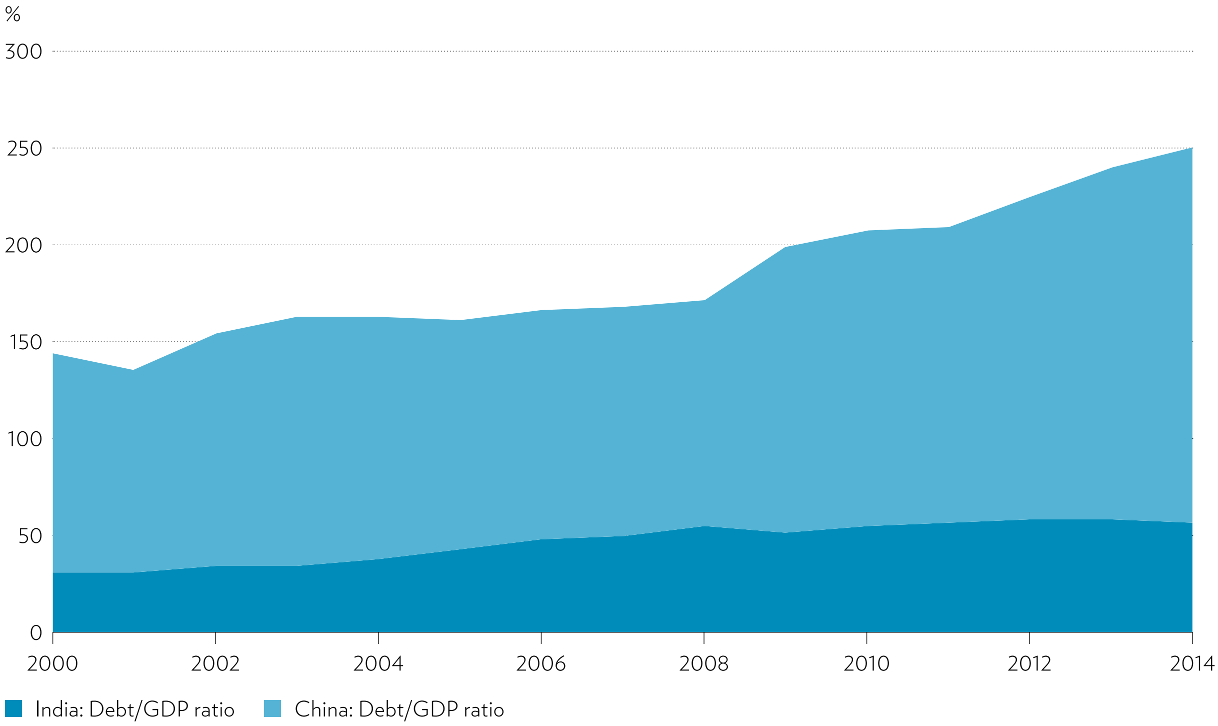
India vs. China

We expect both China and India to contribute significantly to the overall growth of Asia. However, whilst the Indian economy has a nominal GDP of little over USD 2 trillion the Chinese economy has a nominal GDP of USD 10 trillion. To a large extent, this GDP divergence between the two countries is explained by the creation of capacity that China has made in several sectors from infrastructure (steel, ports, roads, railways) to resources (steel, cement) to consumer durables (cars) in the last two to three decades. China's total factor productivity growth has eclipsed India's. Additionally this difference can also be explained through the considerable build–up of debt in China (2014 debt/GDP ratio: 192.7%) compared to India (2014 debt/GDP ratio: 57.6%).

Chart 1: Total factor productivity trends, 1990–2014

Source: The Conference Board Total Economy Database™, Growth Accounting and Total Factor Productivity, 1990–2015 May 2015, Julius Baer

Chart 2: China outpacing India in debt too



Source: Bank for International Settlements and World Bank, Non–financial private sector debt in local currency divided by nominal GDP in local currency. Data up to end–2014, Julius Baer

Glass half full

When we analyse the prospects for India, clearly, there are many positive elements to the story. There is plenty of catch–up potential. When the size of the Indian economy expands, so will its wealth generation capacity. But, this story could have been valid on most occasions in the last two decades and yet the fact that it is still being told in prospective terms is telling.

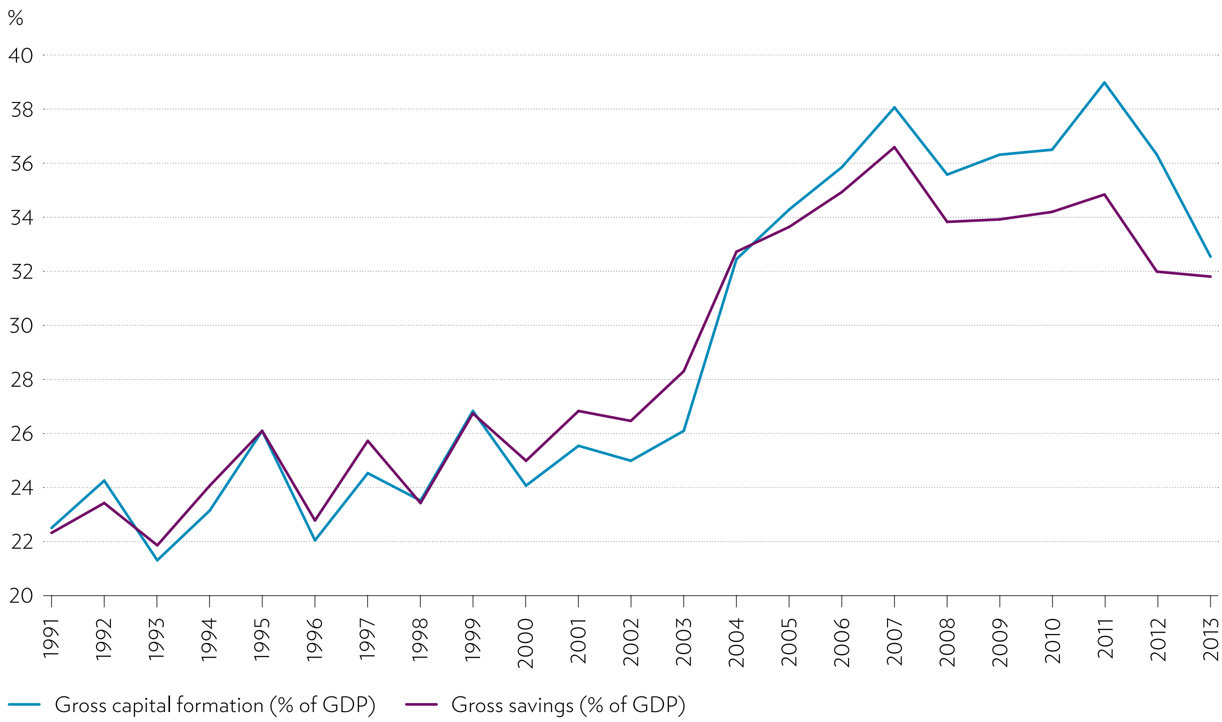
Rise and fall in the new millennium

Historically India has experienced fits and starts in its growth over the past 50 years. India's GDP growth rate has accelerated over the years, particularly since the 1980s. Real GDP growth averaged 5% annually in the 1980s, after languishing at around 3.5% per annum for the first three decades of independence. In the 1990s, it rose further to around 6.5% and in the new millennium, it averaged around 7% per annum.

This is only half the story. Much of the growth acceleration in the first decade of the new millennium was in the period between 2002 and 2007 when the global economy boomed and India's interest rates remained moderate.

After the global crisis of 2008, growth rebounded on fiscal stimulus. However, the fiscal stimulus overstayed its welcome. Economic growth slowed, current account deficits swelled, inflation raged and the currency swooned. India had a mini–crisis of sorts in 2013. While India's debt burden remains much smaller than that of China, as mentioned earlier, it has piled up in the last decade all the same and it is holding back a revival in investment and hence a sustained revival in economic growth. The road to recovery is long but it is full of riches, all the same.

Chart 3: India savings and investments heading south



Source: World Bank, Julius Baer

Fewer wealthy but greater inequality

Consequently, India's wealth creation has been lacklustre up to 2013. We estimate that HNWI wealth rose by a cumulative 6% from USD 949 billion to USD 1,004.7 billion between 2010 and 2013. This is expected to accelerate to USD 2.28 trillion in 2020.

India's ability to generate wealth for its millions of people remains challenging while the historically and well–connected wealthy preserve and can further consolidate their wealth. When it comes to equality of wealth India continues to have challenges, as does its larger partner China.

It stands to reason that India should be able to create many millions of affluent Indians and HNWIs constituting a good proportion of them. Savings, investment and jobs naturally follow wealth creation.

Chart 4: India HNWI wealth and nominal GDP, 2010 – 2020

India	2010	2011	2012	2013	2014	2015	2016E	2020E
Nominal GDP (US billion)	1,708.5	1,835.8	1,831.8	1,861.8	2,066.9	2,133.0	2,428.5	3,561.9
Nominal GDP growth	–	7.5%	–0.2%	1.6%	11.0%	3.2%	13.9%	9.4%
MSCI India – IMI (Annual Return)	–	–38.9%	27.3%	–5.3%	27.6%	3.9%	10.2%	10.2%
Growth in HNWI Wealth	–	0.0%	5.2%	0.6%	17.0%	4.1%	16.4%	11.8%
HNWI Wealth (US billion)	949.0	948.8	998.4	1,004.7	1,175.4	1,223.7	1,425.0	2,282.1
HNWI Wealth/Nominal GDP	55.5%	51.7%	54.5%	54.0%	56.9%	57.4%	58.7%	64.1%

Source: World Bank, MSCI and Julius Baer

2014: A year of political change

Last year, the people of India voted to bring in a new government that promised to create widespread prosperity and wealth. While Indian economic performance has been disappointing for the most part since Independence, the failure to sustain high economic growth, once glimpsed early in the millennium, was the cause of more acute disappointment and frustration among the Indian public.

The new government, elected in May 2014, with a comfortable majority in the Lower House of Parliament still lacks support in terms of numbers in the Upper House of Parliament to pass legislation. That has made it difficult for the new government to enact legislation very quickly.

The challenge

The new government is up to the task but the task is daunting nonetheless. Banks – mostly majority owned by the government – still struggle to get rid of legacy loans that have gone bad. Hence, bank credit creation remains lacklustre but there are signs that credit creation, outside the banking sector, is picking up. Corporate bond and foreign direct investment (FDI) flows together were higher than bank credit to the corporate sector in 2014. Decades old restrictive labour laws have started to be dismantled and transparent methods for auctioning public resources such as mining and spectrum for telecommunications have been instituted. Some of these are yet to generate actual economic growth numbers because there are other teething issues but we believe these challenges should soon be overcome.

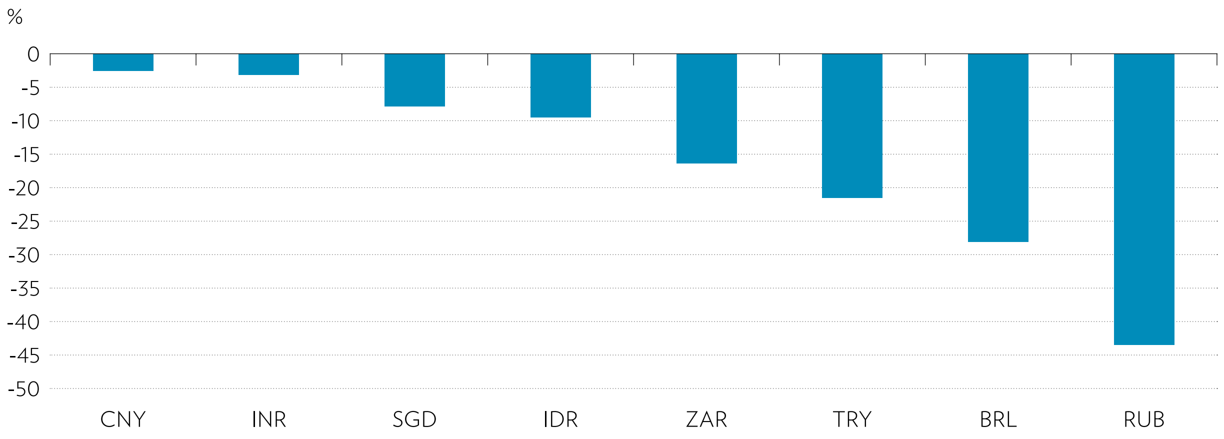
Sprouting seeds of recovery

In the new financial year that began in April, collections in indirect taxes such as Customs and Excise Duty have picked up. They are signs of recovery in economic growth. Additionally, the government have brought the runaway but artificially understated legacy fiscal deficits under control has increased capital expenditure in the current financial year. Contracts for construction of new roads are being accelerated and the number of stalled projects has declined for a sixth consecutive quarter.

Julius Baer expects India's economy to grow at 7.5% this year and 7.8% next year. However, these forecasts are based on the new GDP calculations that India has adopted which are still subject to further scrutiny. The new GPD methodology may not be overstating true economic growth egregiously but time will tell.

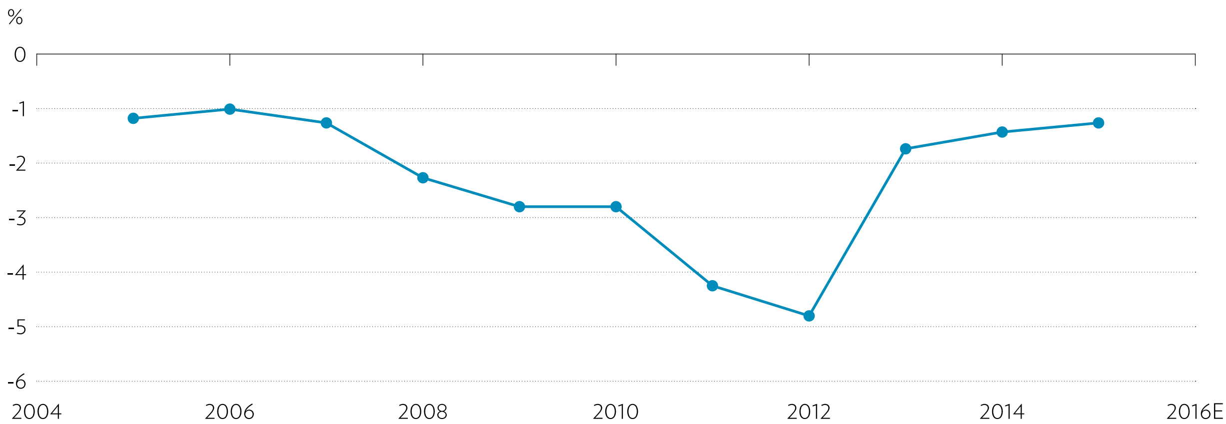
The restoration of macro–economic stability in the last twelve to eighteen months is undeniable. The Indian rupee has been one of the most stable emerging market currencies in this period even as other members of the 'Fragile Five' Club of currencies from 2013 continue to lose value against the US dollar. The current account deficit has shrunk from around 4.8% of GDP in 2012 to around 1.3% of GDP in 2015. Foreign exchange reserves have been built up. They have risen by about USD 70 billion in the last two years from USD 259 billion in 2013 to USD 329 billion as of end–July 2015. If the Federal Reserve were to raise interest rates later this year or next, India's vital economic parameters will remain unaffected. Any growth setback from global turbulence will be relatively shallow and brief. India has ample monetary policy wiggle room to respond.

Chart 5: Percentage change (depreciation) in nominal USD exchange rates of select emerging markets currencies (1 Jan 2014 to 24 July 2015)



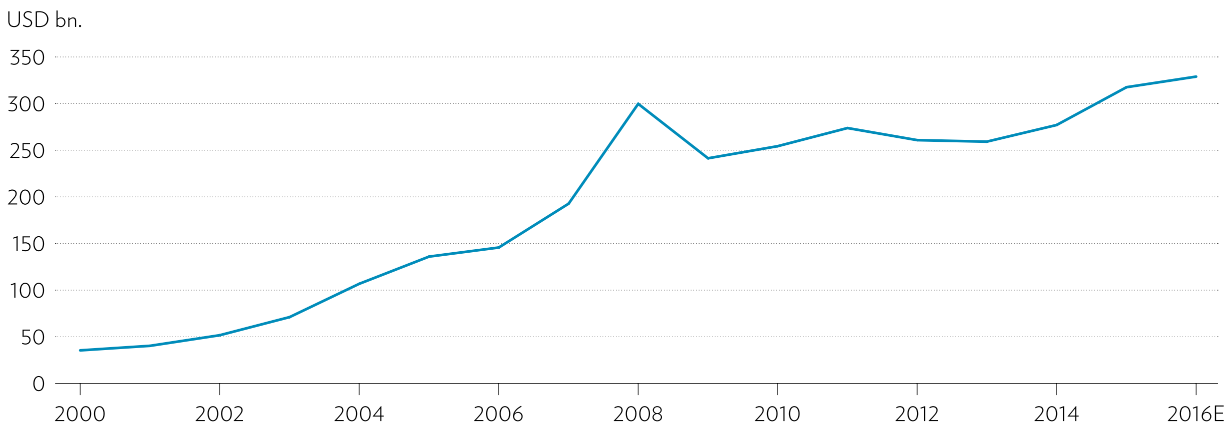
Source: Bloomberg Finance L.P., Julius Baer

Chart 6: India's current account deficit (% of GDP)



Source: World Economic Outlook Database, International Monetary Fund, Julius Baer

Chart 7: Foreign Exchange Reserves (excl. Gold)



Source: Reserve Bank of India, Julius Baer

Wealth creation and diffusion

The big question remains if economic stimulation and growth will eventually result in the much–awaited rise in the number of wealthy Indians and in the sizes of their wealth. More needs to be done to achieve these two outcomes. One is that India's historical legislative burden and bureaucracy that has derived its power and influence from implementing those stand in the way of creating scale and prosperity. Two important factors of production – land and labour – remain severely fragmented as laws conspired against creation of large land holdings and large businesses, viewing them mostly as parasitical rather than as fountainheads of economic activity. These attitudes persist. In fact, even where there is political will, the bureaucracy finds creative ways to erect barriers in the translation of such political will into policy action.

Given the size of India's population and its projected growth in the next three decades, job creation on a mass–scale is essential for India to become a middle–income country. India's Information Technology (IT) sector created entrepreneurs and good success stories last decade and now E–Commerce businesses are thriving, creating new millionaires. The 'feel–good' stories this generates are real but are not enough to propel millions of Indians forward, just as the boom in India's IT (software development and outsourced business processes) sector did not lead to a sustained take–off for the economy at large. They may make a difference in the thousands. Nothing to be scoffed at but much more than that is needed to create a large and diverse pool of wealthy Indians.

Our projections suggest that the growth in India's HNWI wealth will begin to accelerate this year and maintain momentum going into 2020. From a level of USD 949 billion in 2010, we project HNWI wealth of USD 2.28 trillion in 2020. That is in line with our economists' optimistic growth forecasts for India. However, much remains to be done on the policy front to sustain those growth rates. India was unable to maintain the growth rates of pre–crisis years in the last three years.

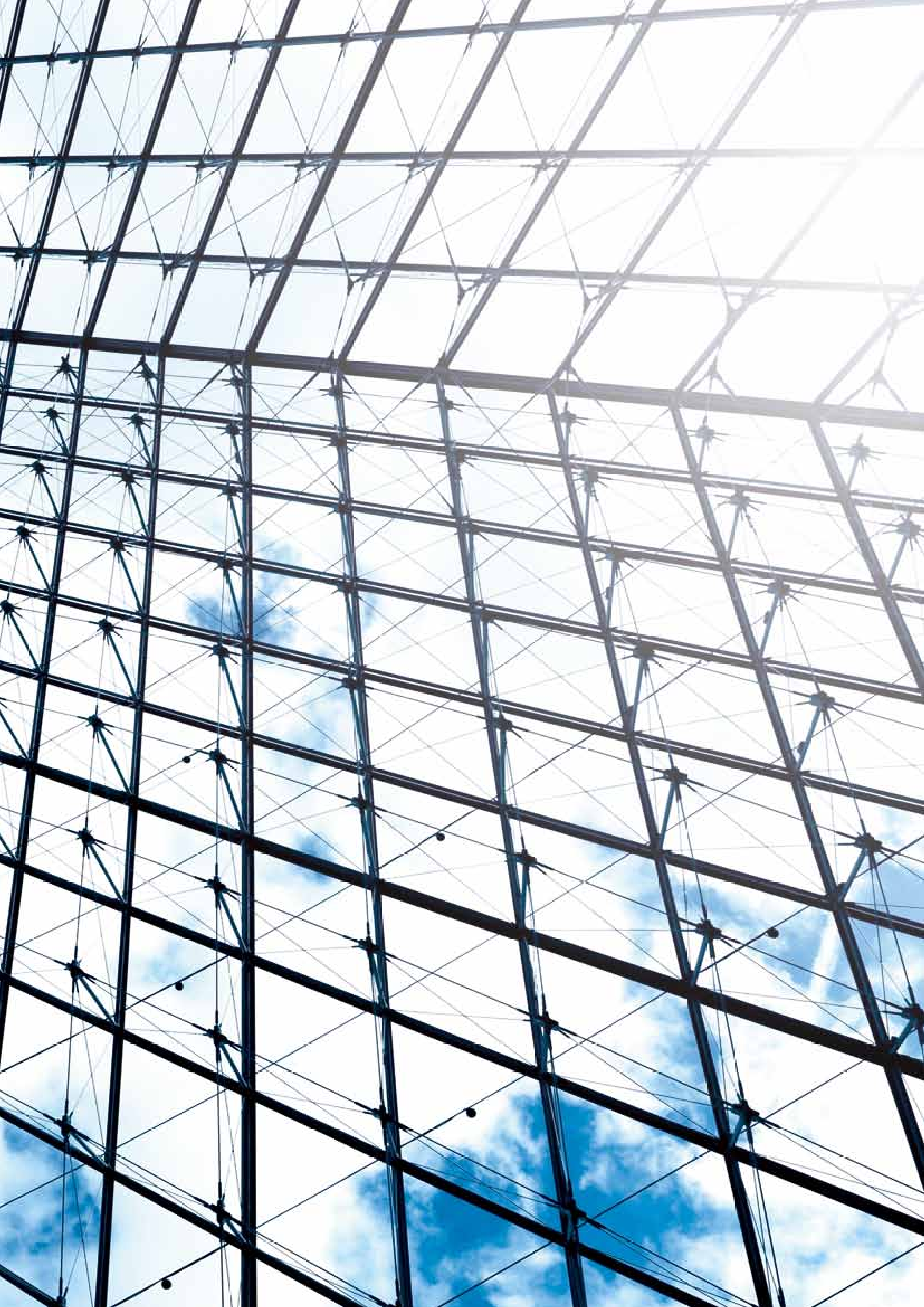
Capital account convertibility

An additional point of interest is capital account convertibility. India has limited capital account convertibility for resident Indians. People can only remove limited sums of money out of the country for designated purposes including for investment. This state of affairs may persist for quite a while. Whether or not one agrees with this policy, the Governor of the Reserve Bank of India is concerned about the fallout of quantitative easing and ultra–low interest rate policies pursued in much of the developed world. As and when his anticipated fall–out day arrives, the Reserve Bank is more likely to want to retain control over how much capital comes in and for how long and how much of it goes out and for what purposes. In other words, while the Reserve Bank is philosophically in favour of capital account convertibility for Indians and reckons that it is inevitable eventually, in the short–term, there is no hurry to loosen these restrictions right now. At the same time, given that macro–economic stability has been successfully established, we believe that the government acting through the Reserve Bank of India, will likely pursue gradual opening of the capital account.

Concluding remarks

The pace of India's economic development and wealth creation is expected to remain gradual. It is perhaps just as well as countries that witnessed rapid growth under authoritarian governance system built up economic imbalances as well.

Perhaps, more than the pace of growth, the direction is more important. In this sense, after five or more years of drift and backsliding, the Indian economy has now found its footing and is in a period of positive development. That is why we project a positive outlook for HNWI wealth in India in the years ahead, in contrast to the relative stagnation in HNWI wealth between 2011 and 2013. Considering the challenges to economic growth and prosperity in other leading emerging economies, India is potentially a vastly superior relative performer. Wealth creation prospects are brighter too than they had ever been in the last five to six years. Therefore, it retains promise and attractiveness for wealth management institutions over the next half decade, if not longer.



JAPAN: EMBRACING CHANGE

A haven of stability

After our last Wealth Report: Asia emphasised Japan's renewed potential, a difficult part of financial restructuring had to be navigated first. The first sales tax hike in almost a generation (from 5% to 8%) had to be digested in the nascent stages of the Abenomics–driven recovery. Fortunately, the Abenomics strategy of boosting growth and demand with powerful monetary easing and a much weaker yen coincided last year with a drop of global oil prices and an accelerating recovery in the US, which buffered the impact. The experience did not only demonstrate the relative strength of the Japanese economy to withstand significant fiscal restructuring, but it also demonstrated how much the economy has already changed over the last years.

It appears that instead of recovering by boosting exports, which has been the traditional engine of growth in Japan, the industry has been focusing on increasing profits while carefully crafting service–oriented investment plans for its future markets, in particular in Asia. Japan today seems to resemble much more a modern service economy that puts value–adding and profitability first, instead of the 'old' and highly cyclical manufacturing powerhouse of the 1990s that rather strived for growth and market share.

This 'new normal' will be the main topic of this wealth report. After the global financial crisis, a 'new normal' of much lower, but hopefully more sustainable growth, has become a hotly debated topic around the world. For example, a 'new normal' of China's economy has been proposed by China's leadership. In the US, Larry Summers and a number of renowned economists are fearing an 'era of secular stagnation' while the International Monetary Fund (IMF) sees lower long–term growth[1]. In all cases, a slowdown of the raw forces of growth (labour force growth, urbanisation and capital concentration) that drive young economies has been observed, while the productivity–driven growth process in the now fast ageing economies remains dependent on difficult structural reforms and the implementation of complex systems.

Institutional advancements under Abenomics, sustainable energy management and environmental improvements are all part of wealth creation under the 'new normal'. This is exactly the situation that we see in Japan, which is already highly visible for the success of its clean, efficient and growing cities as well as in its track record of slow but reliable real income generation and equality.

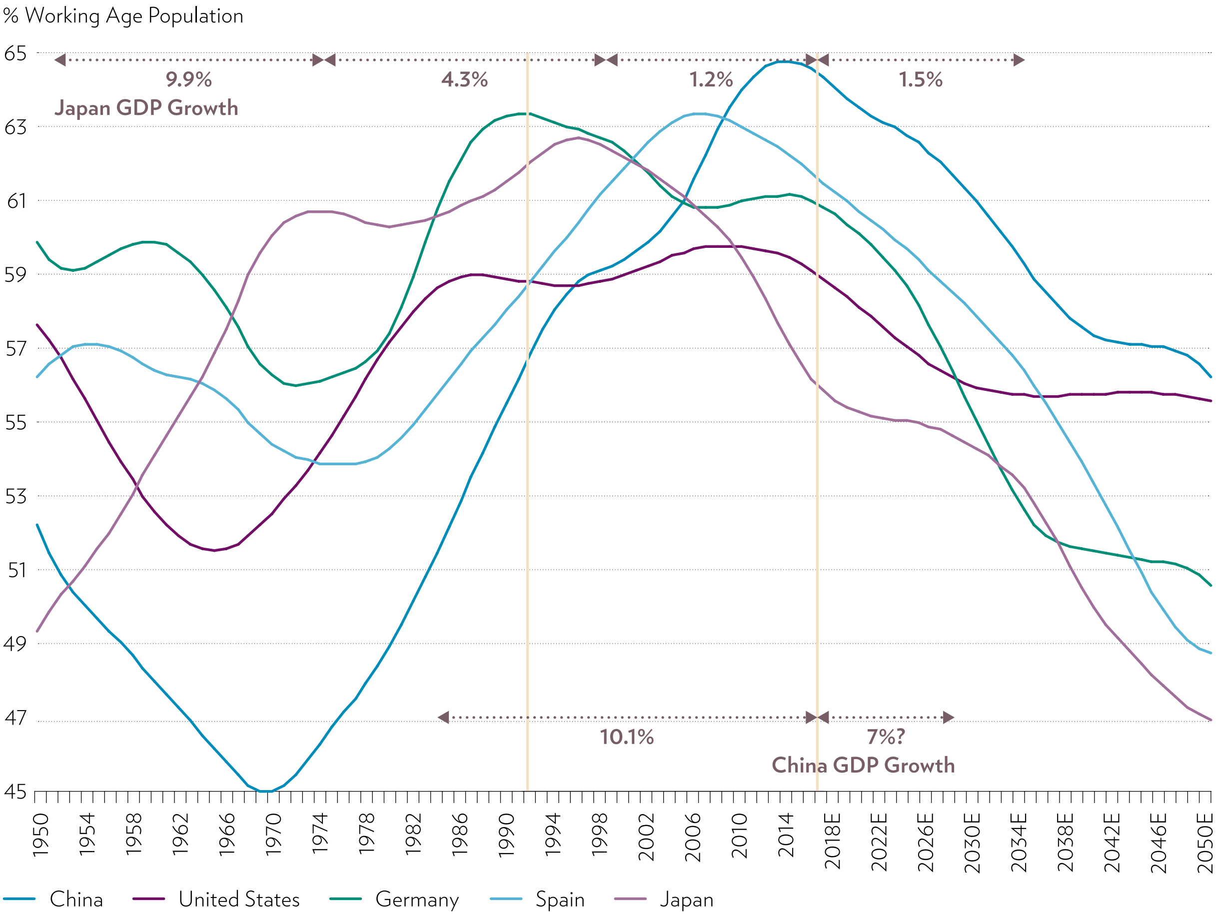
Structural changes driving the 'new normal': The role of demography

Japan has become the forerunner of a 'new normal' paradigm: one of slower economic growth that is taking root in the world's major economies. Between 1998 and today, Japan lost 10% of its working age population, and from 2004, the population has even started to decline in total. Until 2025, last year's decline of almost 271,000 people will increase to a yearly loss of the equivalent of a major city (of about 700,000), according to United Nations 2015 World Population Prospects. The drag on demand and production potential is considerable, of course. Rough estimates of the 'demographic deficit' (loss of workforce and consumers) result in a yearly drag of about 1% lower Gross Domestic Products (GDP) growth already today (Hoshi/Ito 2014[2]). The overall impact is likely to be much larger, however, because the changes in demography are affecting the entire social fabric of the economy.

1 'Why stagnation might prove to be the new normal', Lawrence Summers, 15 December, 2013

2 Hoshi, Takeo and Ito, Takatoshi 2014: 'Defying Gravity: Can Japanese Sovereign Debt Continue to Increase Without a Crisis?', Economic Policy, Vol. 29, Issue 77, pp. 5–44, 2014

Chart 1: Demographics play an important role in long-term growth



Source: © Fujitsu Research Institute (FRI) 2015 , United Nations, CEIC, Julius Baer

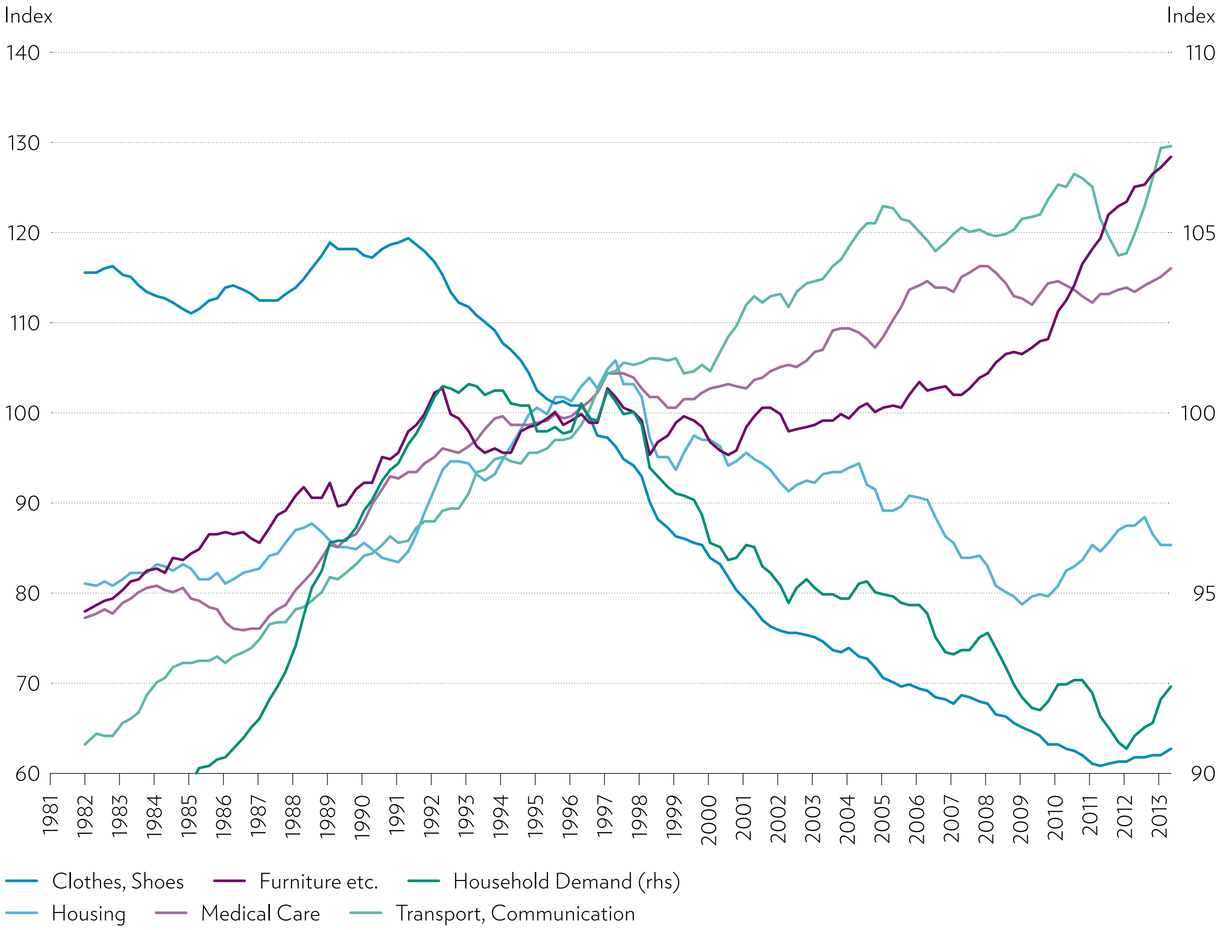
Down the rabbit hole

When young populations age, investment into careers and capital changes towards the accumulation of wealth for retirement, which slows economic growth and can result in asset bubbles when mature households (and companies) simultaneously start to chase real estate investments. At the same time, ageing household demand shifts from manufactured goods (such as TVs and cars) to slower moving and highly regulated services (such as finance, logistics and social security). This further reduces growth.

During such structural change, governments are inclined to 'lean against the wind' and to support declining markets as well as insufficiently financed social security systems with deficit spending. Social transfers as a whole, which have been flowing from the older to the younger generation throughout history (Lee/Mason 2011[3]), are reversing and older generations have started to rely more on the output of the active work force. Consumption and wealth creation patterns change dramatically during such a period. Housing markets slow until they find a new equilibrium with new demand patterns, such as a new push towards urbanisation. Demand for cars turns into demand for new forms of mobility, mixed with public transport and distributional logistics services. Medical services face higher demand but come under pressure from lower incomes and government budget constraints, which requires a whole new mix of health services with much higher productivity.

[3] Lee, Ronald and Mason, Andrew 2011: 'The Price of Maturity', Finance & Development, June 2011, Vol. 48, No. 2

Chart 2: Household demand slowed and shifted to services (1996=100)



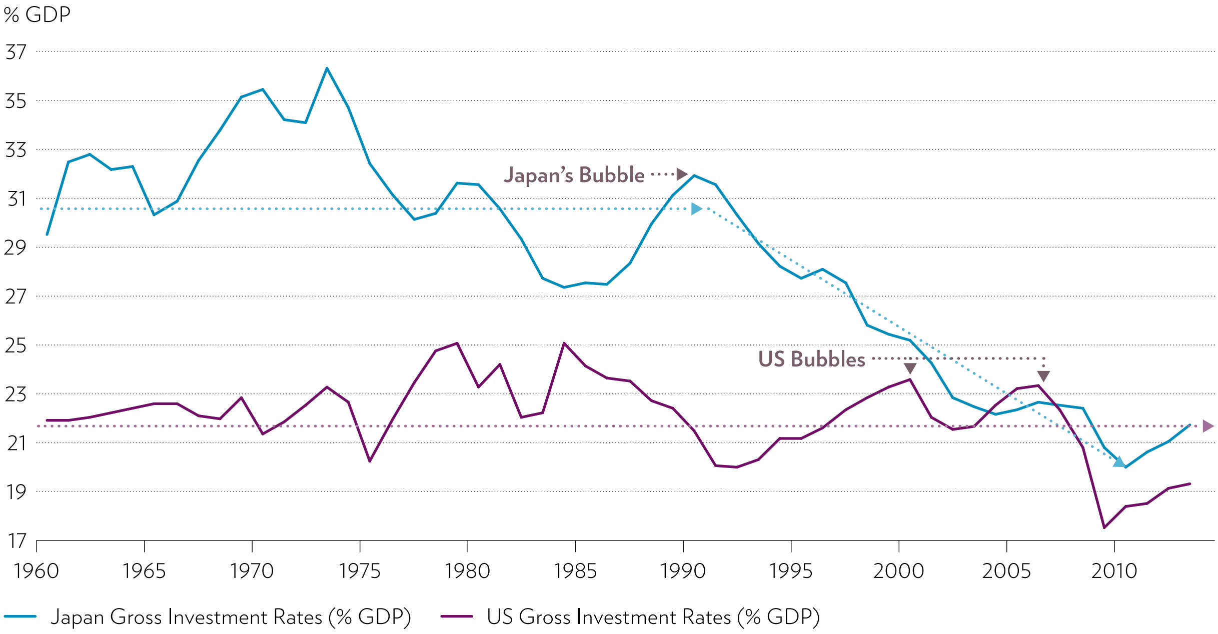
Source: © FRI 2015, CEIC, Julius Baer

Beyond the consumer

These changes go beyond the individual, with companies heavily affected as well. Strategies turned from developing production and consumer goods (machines, infrastructure, TVs) for growing markets to cost–saving and convenience–orientated business and consumer services. Arguable cost–cutting became necessary to shrink manufacturing and to grow in the highly regulated service markets.

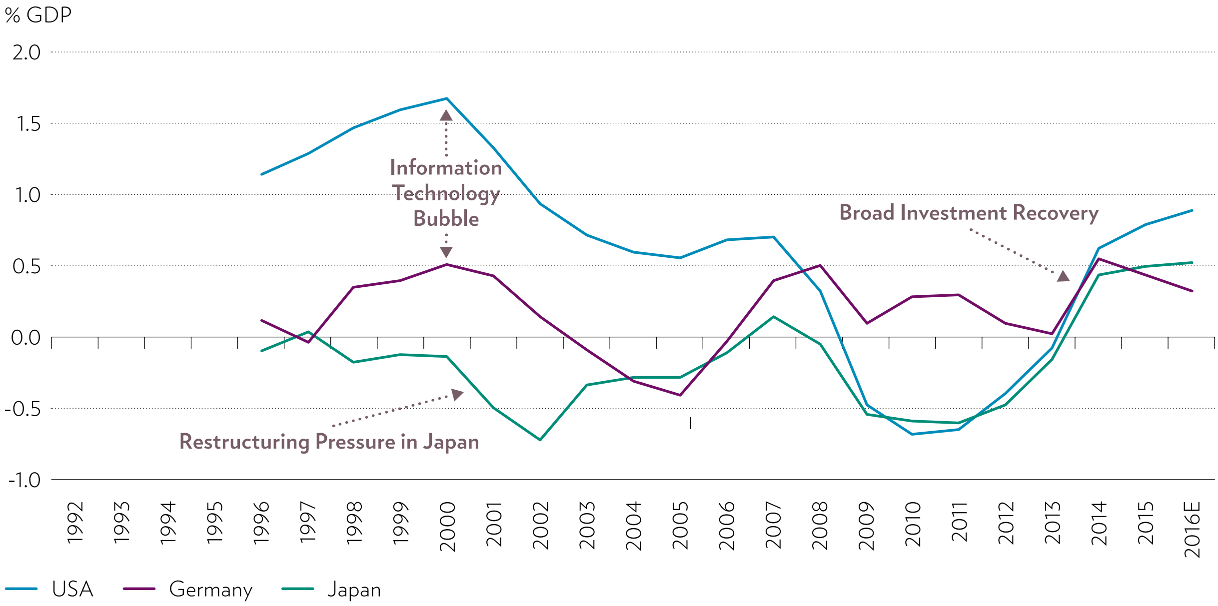
Japan, as an ageing Asian economy was affected by an additional, even more profound challenge: Production capacities and investment rates in input–driven, high–growth Asian economies are extremely high, above 30% of GDP in Japan's case well into the 1980s, and higher than 40% in China today. These rates have to come down to sustainable levels of just above 20% in a mature economy. In Japan, this adjustment process had already started in the 1980s, and would have probably resulted in a painful decade of down–sizing, if it had not been interrupted by the 1990's financial bubble and the following heavy government deficit–spending that was meant to mend the slumping economy. Ultimately, it took two decades until today's sustainable recovery of investment and demand.

Chart 3: Investment slow–down led to cost–cutting and deflation



Source: © FRI 2015, World Bank, CEIC, Julius Baer

Chart 4: Investment contribution to GDP growth is finally picking up again



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Upon reflection

After such a long workout, manufacturing, the historical heart of the Japanese economy, had shrunk by 30% (when excluding the global car industry, the decline would be even stronger). Corporate strategies shifted from boosting growth and volumes to maintaining efficiency and prices.

However, services from retail to business services, IT and communications, have become the new engines of growth that dominate investment and profitability rankings by wide margins.

Chart 5: Topix – Profits of top investing sectors center on services (28 August, 2015)

	Return on equity (%)	Return on assets (%)	Return on investment (%)	No. firms
Automobiles & components	16	6	10	12
Capital goods	13	5	7	13
Consumer durables	28	7	3	5
Tech. hardware & equipment	18	9	9	7
Manufacturing sectors	**19**	**7**	**9**	**37**
Commercial & prof. services	23	3	11	6
Consumer services	26	9	9	7
Healthcare	17	11	14	5
Real estate	29	9	12	7
Retailing	14	6	9	5
Software & services	28	21	27	8
Service sectors	**34**	**15**	**21**	**38**

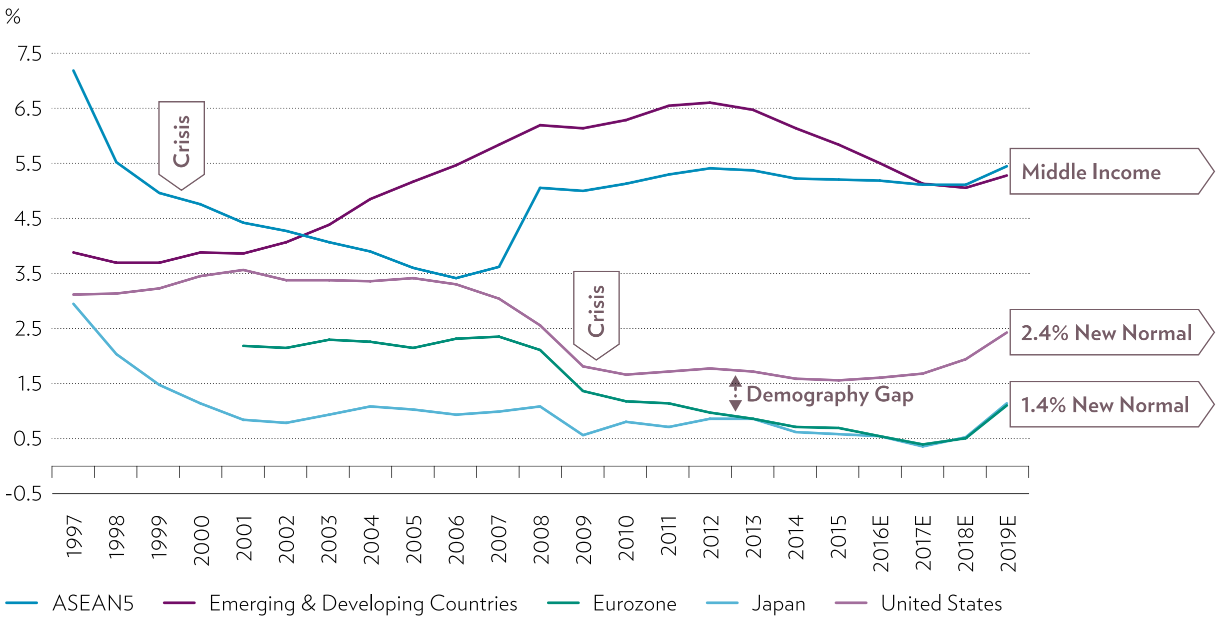
Topix Index on 28 August, 2015. Top 100 stocks, ranked by net asset growth. Only sectors with at least 5 performing companies are shown. Sector median values. Manufacturing and service sector summary values are based on averages for the table.
Source: © FRI 2015, Bloomberg, Finance L.P., Julius Baer

The 'new normal' contagion

Emerging Asia, especially China, will possibly face similar headwinds from a peaking workforce and very high investment rates. Fortunately, it still has at least a decade of catchup growth to go a nd policymakers are looking at Japan's case closely. Avoiding middle income traps[4] by upgrading governance, technology and global integration will be their most urgent challenge.

Japan's mature peers in the US and Europe, on the other hand, do not face Asia's extreme demographic adjustment, but they share similar challenges of low potential growth as long as technological innovation does not push productivity much higher. In the US, forecasts of potential growth remain a full percentage point higher than in Europe and Japan because of more active immigration policies. On a per–employee basis, growth rates have converged.

Chart 6: Potential growth in the 'new normal'



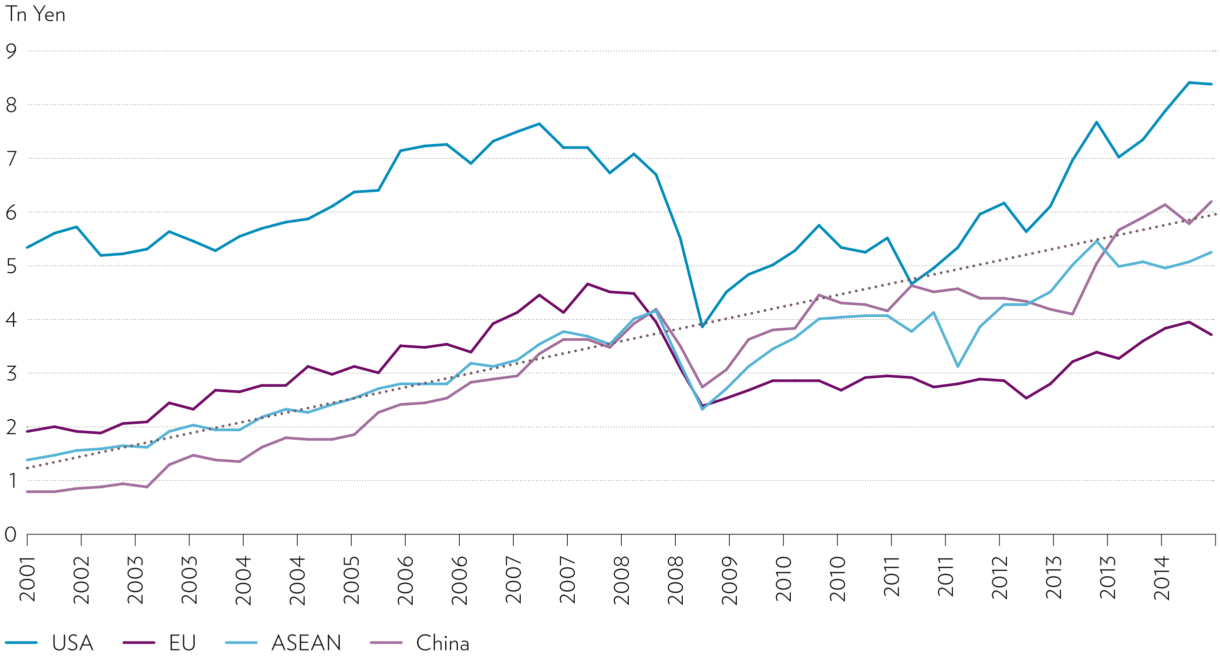
Source: © FRI 2015, IMF, World Economic Outlook, OECD, Julius Baer

[4] Middle income trap refers to countries unable to compete with low–income, low–wage economies in manufactured exports and with advanced economies in high skill innovations, 'Tracking the Middle–Income Trap: What is It, Who is in It, and Why?', ADB Economics Working Paper Series, p.14, March 2012

Corporate attraction

The revaluation process of Japan's real assets has been in full swing over the last three years, resulting in a very strong performance of the stock market in particular. Much of the additional corporate income, however, has still been earned in the recovering export industries, which actually gained from the accounting windfall of a much lower yen. Companies will only be willing to boost their export production from the still low 17% of Japan's GDP, compared to Germany's and Korea's more than 40%, if exchange rates continue to remain competitive. Longer term valuations of the exchange rate will therefore be a decisive factor.

Chart 7: Exports still have potential for growth. Japan manufacturing sectors' overseas subsidiaries' sales by region (Tn Yen)



Source: © FRI 2015, The Ministry of Economy Trade and Industry of Japan, CEIC, Julius Baer

The depreciation of the yen, consistent with the US dollar's appreciation against a range of currencies over the past few years, has arguably garnered the lion's share of attention under Abenomics. Over the longer term, we would expect the yen to stabilise in line with fundamental factors such as purchasing power parity and current account developments.

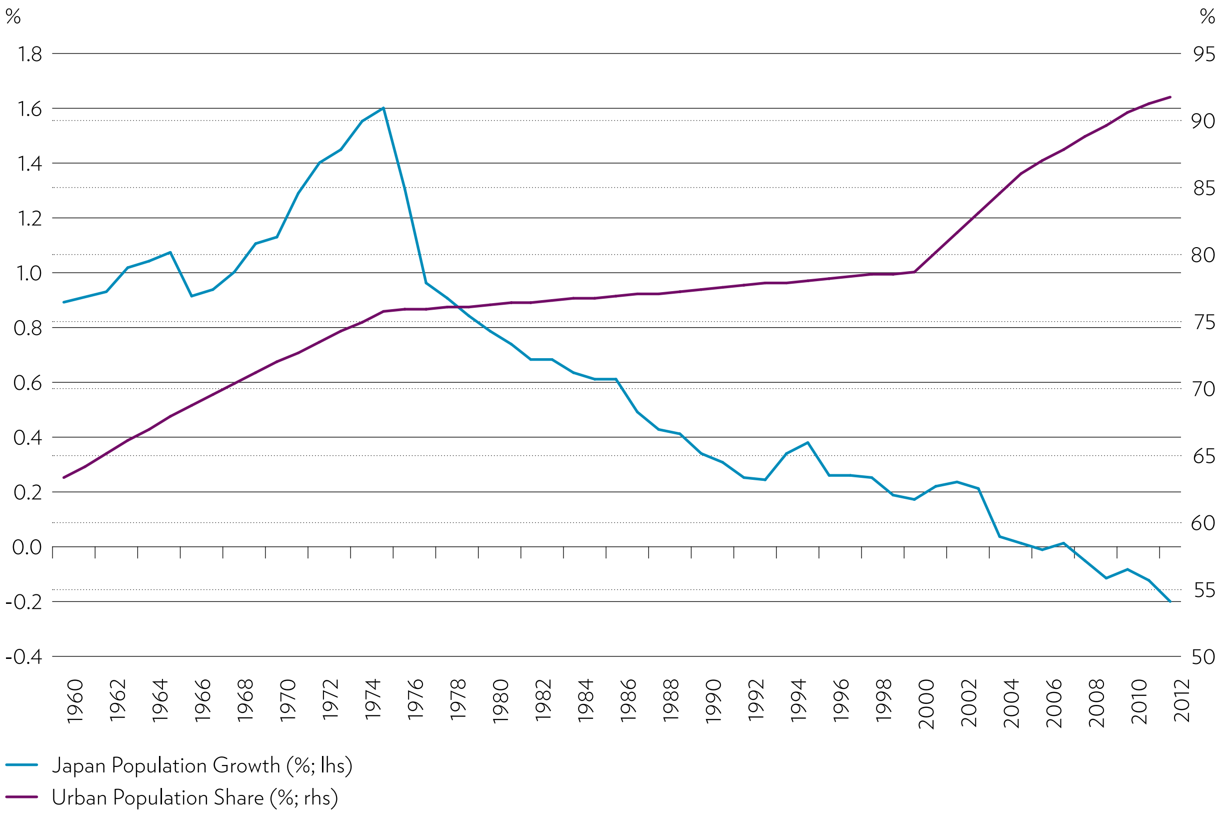
Japanese overseas investments

With a stable yen trend in the future, effective export strategies become more promising, but most companies will likely continue to focus on boosting incomes through overseas investment in markets that promise stronger growth for their products, technology and services. As our 2014 wealth report has pointed out already, Japan is becoming a major investor, especially in Asia. We believe the best opportunities are therefore seen for companies that have been able to grow while investing into effective IT systems, mobile distribution and supplier channels. The traditionally strong exporters (cars and parts) certainly are doing this very well but surprisingly, some of the still quite domestic services, such as logistics, franchised retailers (convenience stores), restaurants, and IT–based healthcare provider companies, seem to have the strongest potential.

Domestic bliss

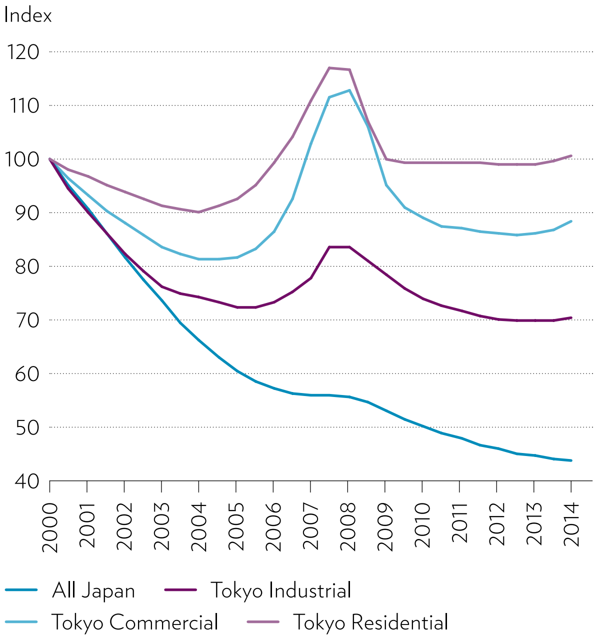
While Japan clearly has enormous potential for growth in Asia, some of the best opportunities in the 'new normal' can be found domestically. Since the country has become a forerunner in aging trends, it has developed important comparative advantages compared to countries that are running into their adjustment phases only now (especially Korea and China). Infrastructure has been built up to world beating levels and now gains from further investment into efficiency, especially of social infrastructure. Urbanisation (people living in cities), which is already at a level of 94%, is picking up again. The mega city of Tokyo (34 million inhabitants) is growing almost at the pace of the 1960s. Jobs and higher wages plus the trend towards two income earners per household for the younger generations, as well as improving social infrastructure and increasing demand for convenient apartments (instead of single houses) among the older generation, are all driving this new second wave urbanisation. Today, it is the old and the young, in contrast to the squeezed middle–aged 'sandwich generation', who are driving demand trends in Japan (as evidenced by the high demand for luxury goods and music sales).

Chart 8: 'Second wave' urbanisation drives growth trends in Japan



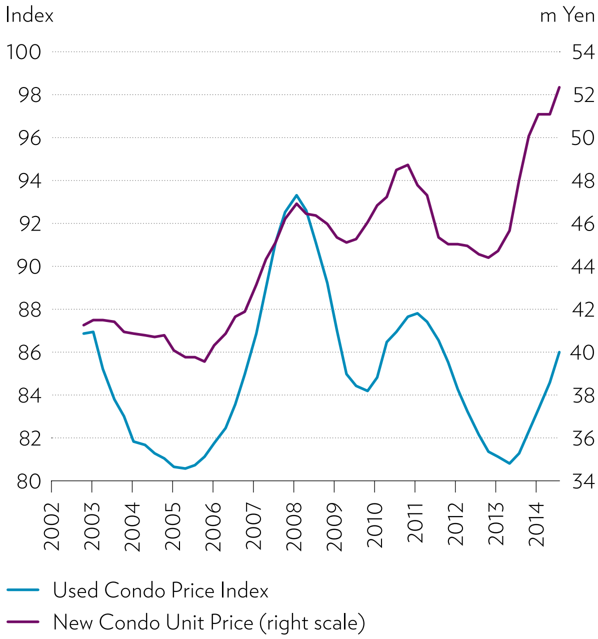
Source: United Nations, Julius Baer

Chart 9: Japan land price indices (2000=100)



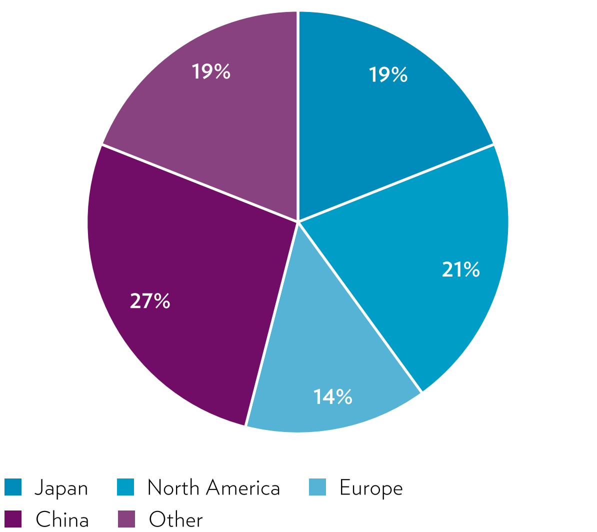
Source: © FRI 2015, Japan Real Estate Institute, Tokyo Stock Exchange, REERI, Bloomberg Finance L.P., CEIC, Julius Baer

Chart 10: Tokyo condo prices & sales



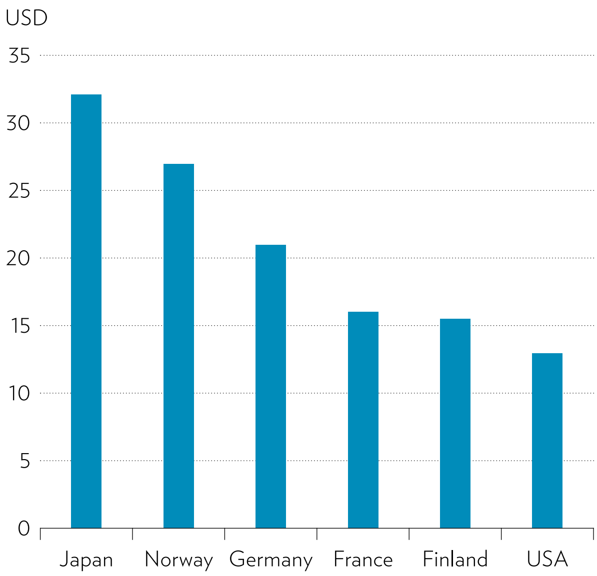
Source: © FRI 2015, Japan Real Estate Institute, Tokyo Stock Exchange, REERI, Bloomberg Finance L.P., CEIC, Julius Baer

Chart 11: Global luxury sales 2014 (%)



Source: Julius Baer

Chart 12: Music spending (per capita, 2010 USD)

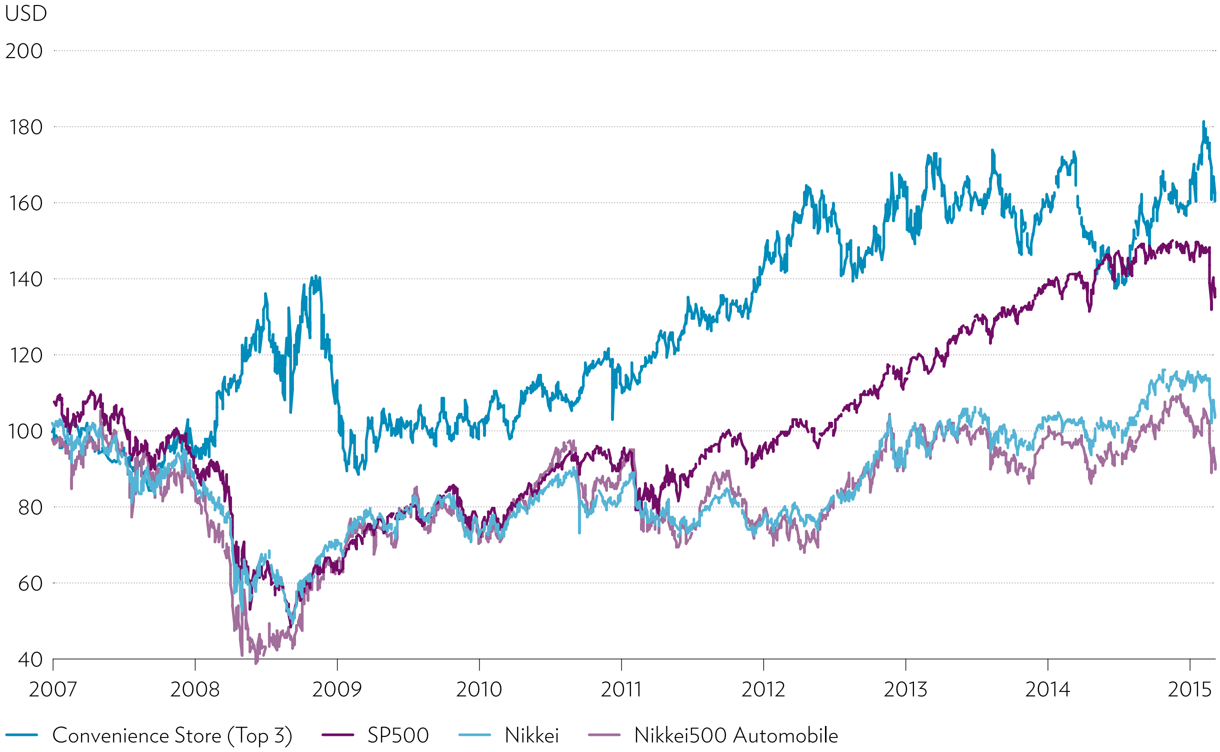


Source: Julius Baer

The trend towards extreme urbanisation has been a major concern for the government for decades because the depopulation of the countryside has been difficult to manage. With a shrinking population, however, it now allows for cost–efficient upgrades of medical and civil services as well as efficiency of public transport in the cities, while the drag of the lagging countryside gradually subsides. Private services clearly have become the biggest winners of this new urbanisation trend, even where the government is heavily involved, because severe constraints on government finances now require broad deregulation.

Investment into smart city technologies, energy sustainability, mobility, logistics and distribution are already increasing strongly and entire sectors are moving. Efficient convenience store retailers penetrate ever deeper levels of consumer and social services. Virtual mall services bring increasing numbers old 'brick and mortar' stores into the new distribution channels. Logistics companies deliver almost anything anywhere at incredible speed. Security companies have been expanding from basic security and protection services into integrated smart homes and caring solutions, including the related logistics.

Chart 13: Convenience retailers outperform (USD; 2007=100)

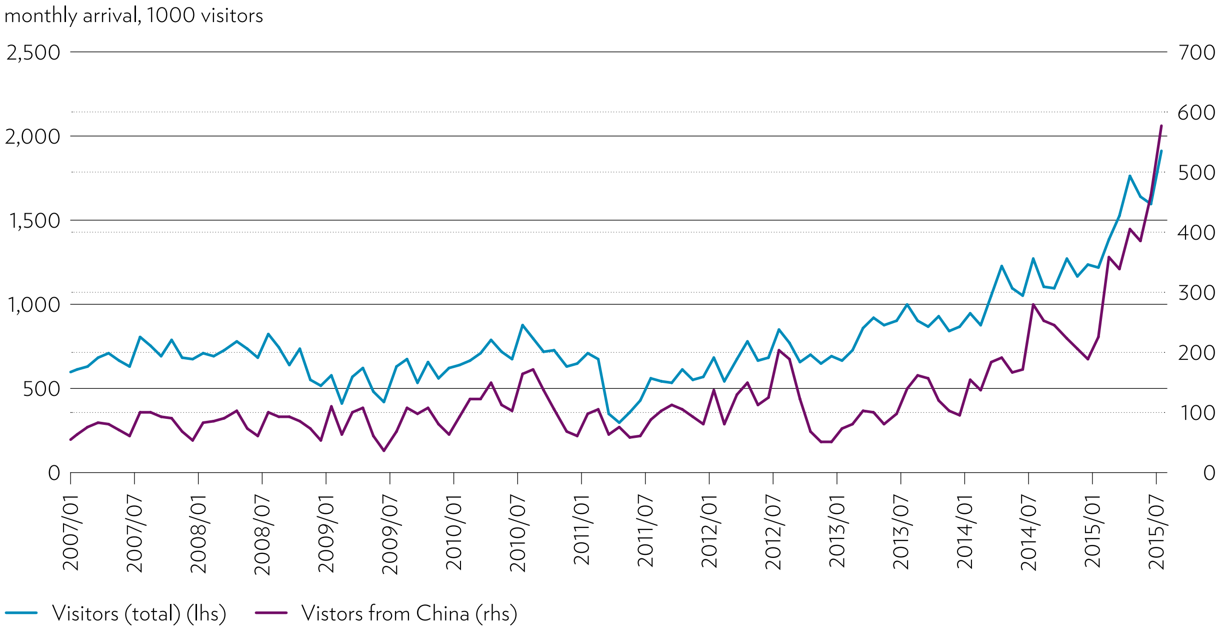


Source: Bloomberg Finance L.P., Julius Baer

Even the traditional manufacturers, from machinery to consumer electronics, have been refocusing their strategies. For companies with a strong traditional (hardware) infrastructure business, focusing on social infrastructure systems was only a relatively small step; it required mostly better integration and upgrades of their IT and software services, as well as a refocusing on mobility and ecofriendly solutions. In the electronics industry, however, changes to the business model were more pronounced. Companies had to significantly downsize their mainstay audio–visual business (TVs) and engage in mobility solutions by expanding infotainment systems and automotive solutions for increasingly electric and smarter cars. Home appliances had to be transformed from mass produced consumer goods to smart home solutions with integrated digital services.

The flipside of the focus on urban infrastructure and overseas investment is, however, that Japan's regions and the countryside might be declining even faster than in the past. Sustainable regional policies are therefore high on the agenda of the government. One of the most important opportunities is to promote and increase tourism. The strong focus of the government on more openness towards Asia, which has resulted in relaxed visa requirements for Asian tourists, and a much weaker yen have already resulted in a major tourism boom. Monthly arrivals of tourist have doubled to two million, with 80% coming from Asia. This year, 2014's record of 13.4 million tourists has already been reached during the summer, and the government's target of 20 million tourists per year until the Olympics in 2020 now looks modest. The boom still has to trickle down from the major city centers, where hotel rooms are in short supply and shopping centers gain from the spending especially of Chinese tourists ($1,878 per capita), but the regions are already preparing. For example, Northern Japan is discovering that its abundant snowfall presents an outstanding attraction to international skiers. With over 500 ski resorts the potential is certainly enormous (and getting discovered fast).

Chart 14: An emerging tourism boom (monthly arrival, 1000 visitors)



Source: Data from CEIC, Japan National Tourist Organization, Julius Baer

Lastly, a very important change is happening in the energy sector. After the Fukushima disaster in 2011 idled all nuclear electricity generation (about 30% of the total), Japan's remaining energy infrastructure could handle the entire energy demand without a glitch. Since renewables are now being actively supported and the power sector will become deregulated by 2020, companies are heavily investing in renewable energy[5], energy efficiency[6], and efficient eco systems. As with Japan's batteries and hybrid systems already today, all these technologies will be in hot demand particularly in emerging countries, who have to fill their energy needs in a much cleaner and more efficient way in the future.

5 in just two years more solar capacity projects have been approved than Germany's entire installation base.

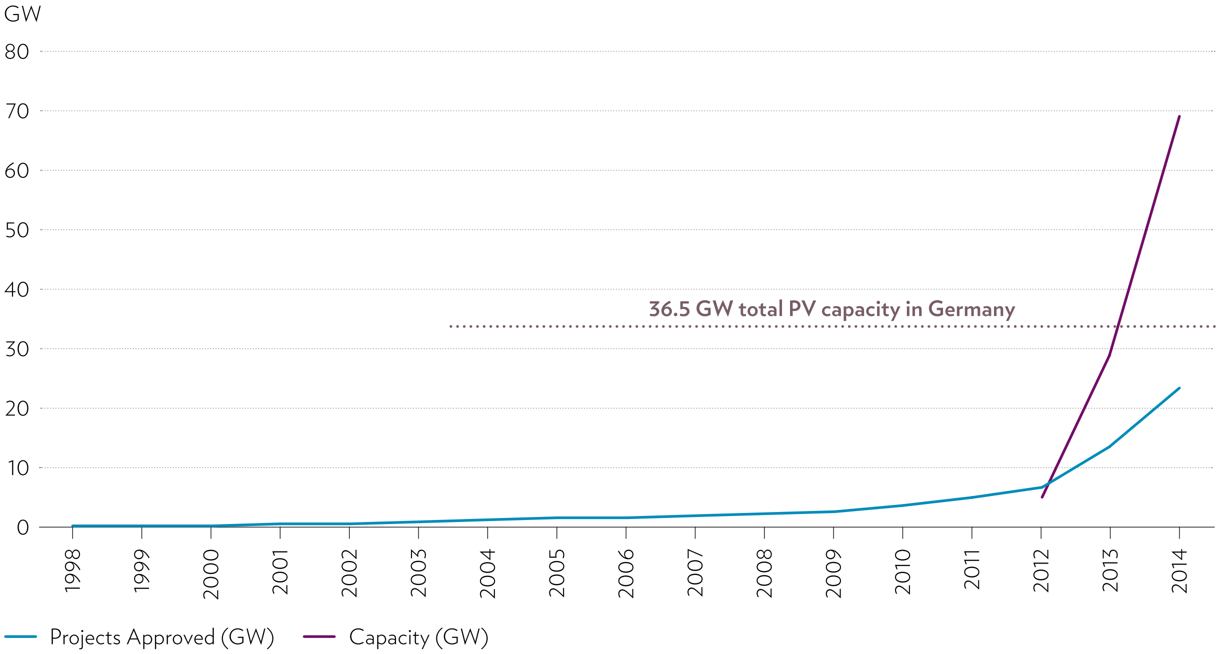
6 Japan's 'Top Runner' programme (The Ministry of Economy Trade and Industry of Japan), which started already in 1998, continuously boosts product energy efficiency to the level of the best–performing front–runner.

Chart 15: 'Top Runner' program boost to energy efficiency

	Program Period	Energy Efficiency Improvement **Expectation**	Energy Efficiency Improvement **Result**
Cars	1995–2011	23%	**50%**
Trucks	1995–2011	13%	**13%**
Air Conditioner (<4kW)	2005–2011	22%	**16%**
Refrigerators	2005–2011	21%	**43%**
Rice Cooker	2003–2009	11%	**17%**
Fluorescent Lamps	2006–2013	8%	**15%**
Electric Toilet Seats	2006–2013	10%	**19%**

Source: The Ministry of Economy Trade and Industry of Japan, Julius Baer

Chart 16: Supported by subsidies, the solar photovoltaics (PV) market took off



Source: The Ministry of Economy Trade and Industry of Japan, European Photovoltaic Industry Association, International Energy Agency Photovoltaic Power System Programme, Julius Baer

A final word

As in our 2014 edition, this wealth report holds a positive evaluation of Japan's economy and outlook – despite the fact that the overall growth of the market should not be expected to increase much beyond 1.5% per year anymore. Overall growth will be slowed down by demographic decline and underperformance of entire regions outside the city centers. Within its urban growth centers, however, new services are thriving, already strong social infrastructure is being upgraded and restructured corporations have returned to profitability. This will also be the basis for Japan claiming a greater economic role in Asia again.

CONCLUSIONS

Asia's prospects remain bright in the 'new normal'
Asia's pace of economic expansion has moderated over the past year amid heighted volatility as the region enters a 'new normal' of lower but more sustainable growth. Within the region, Japan and India boast brighter prospects on the back of government–led structural reforms. The lifestyle Index contains as much movement as ever, but is starting to settle more than it has in the past few years.

We expect exciting, but more considered times ahead and encourage readers to embrace the new normal. That said, we continue to expect Asia to be the best relative bet on economic growth and wealth creation in the years ahead.

APPENDIX

Our methodology

We start with our estimates for HNWI wealth in 2010 that we had published in our first Wealth Report: Asia in 2011.

Second, from World Bank data, we obtain estimates of nominal GDP growth in US dollars from 2010 up to 2014.

Third, from Morgan Stanley Capital International (MSCI), we obtain historical stock market returns for MSCI Indices from 2011 to 2014. We have returns up to July for MSCI indices for 2015. We use that as the full–year estimate. In other words, we assume no change in the index valuation for the last five months of 2015. For the years up to 2020, we use forecasts generated by Oxford Economics for local indices. Then, using exchange rate forecasts made by Julius Baer, we generate expected annual USD returns for the various stock markets.

Fourth, we use Julius Baer forecasts for real GDP growth, CPI inflation and exchange rates for Asian currencies for 2015 up to 2020 to compute nominal GDP estimates for all these years for our selected Asian countries. We would like to stress that nominal GDP growth estimates are very small or even negative for 2015 due to the sharp depreciation of various Asian currencies versus the US dollar.

Fifth, in general, HNWI wealth grows faster than nominal GDP growth or shrinks more when GDP contracts. This is due to the fact that wealthy are the first to benefit from an acceleration in economic activity and to suffer its contractionary effects too. Based on the historical average range of 1.2 to 1.8, we use a somewhat conservative ‘beta’ of 1.3 to derive growth in HNWI wealth from nominal GDP growth.[1]

Finally, we make the assumption that 80% of the growth in HNWI wealth comes from economic activity (nominal GDP growth) and that the other 20% comes from stock market returns. This is done for all years from 2011 onwards. Recall that we started with the estimated HNWI wealth in 2010 from our first wealth report.

[1] The other method of calculating HNWI wealth is bottom–up. It involves estimating the number of HNWIs in each wealth segment using a Pareto distribution. Number of HNWIs declines at higher levels on the wealth scale. There will be far lesser number of billionaires than millionaires who will be smaller in number than those whose wealth is under a million. But, this method too is fraught with significant limitations due to data quality issues, reliability of stability of regression coefficients and significant differences in the measurement of wealth between families and individuals, etc. More than all of these, wealth generation in an economy, at the aggregate level, is more tied to macro–economic performance than other factors.

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