

Clime Asset Management

The emerging Asian middle class - What does it mean for Australian & International Equities

Presented by John Abernethy

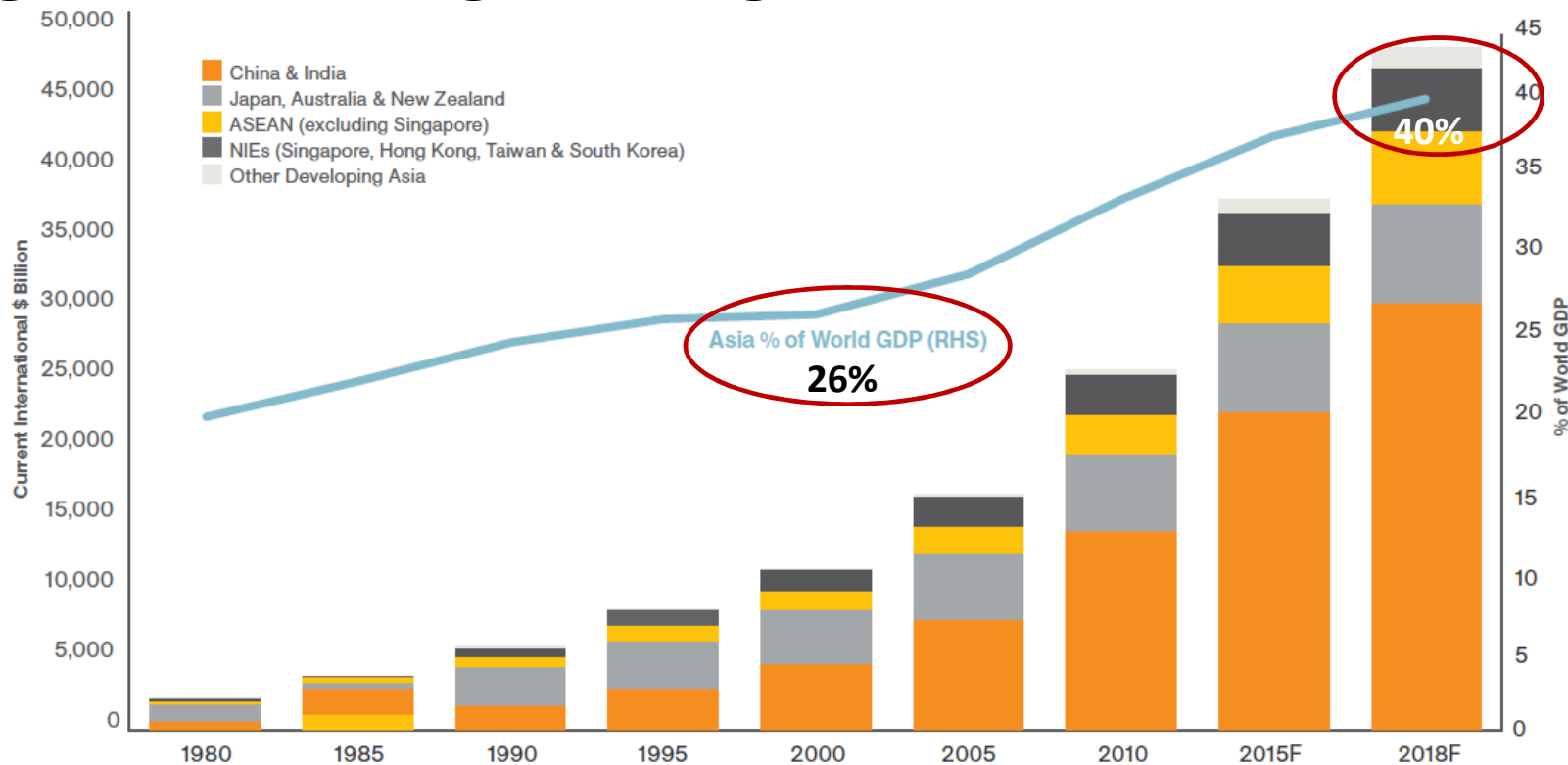
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Why Australian investors must consider offshore equities?

1. World growth driven by Asian region and the Chinese consumer
2. Asian incomes per capita will double in the next decade
3. Australian companies offer limited exposure to the growth opportunity
4. Developed world economies are aging rapidly- Asian are not
5. Australian equity market lopsided with banks and resources
6. Australian brands not recognized in China or Asia
7. No food, consumables, IT, pharmaceuticals or IP companies
8. Australian super pool exceeds Australia GDP and market capitalization
9. Australian dollar trading 20% above long term average
10. USA and Europe recessions. Australia has had none in 23 years

Asian growth driving world growth

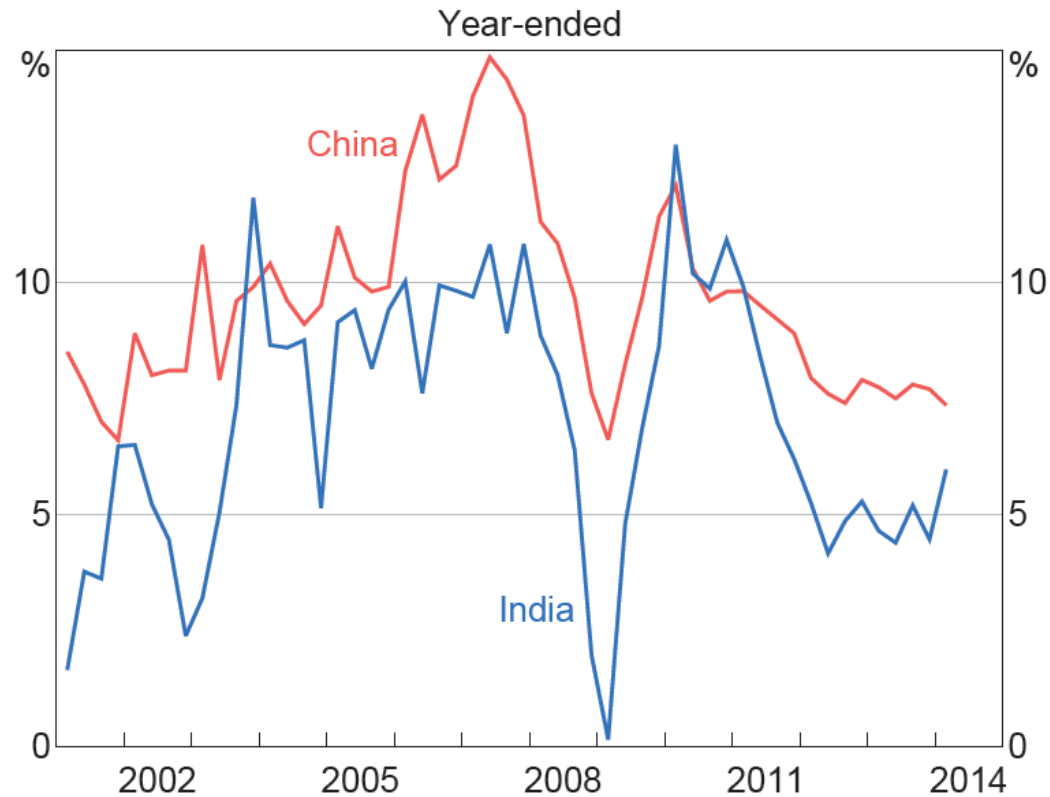


Asian economic growth – GDP valuation (current international dollar billion)¹ based on Purchasing Power Parity

Source: International Monetary Fund, World Economic Outlook, April 2013; Austrade

1. An international dollar would buy in the cited country a comparable amount of goods and services a US dollar would buy in the United States. This term is often used in conjunction with Purchasing Power Parity (PPP) data.

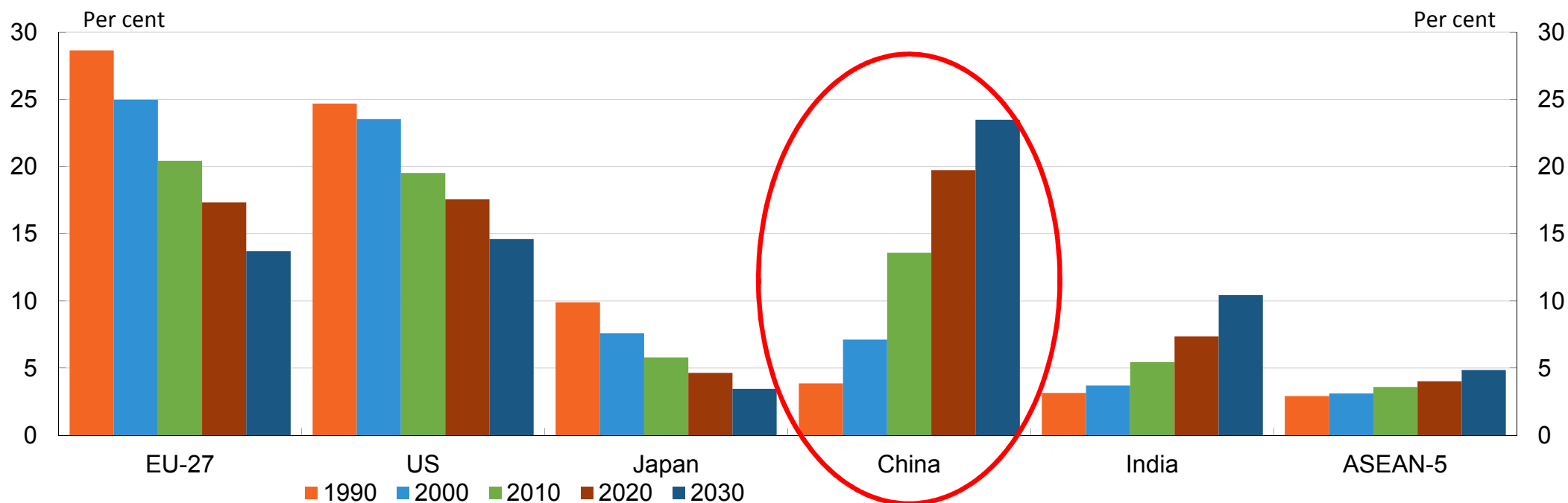
The fastest growing economies in Asia



GDP growth – China and India

Source: CEIC Data, RBA

World GDP projections

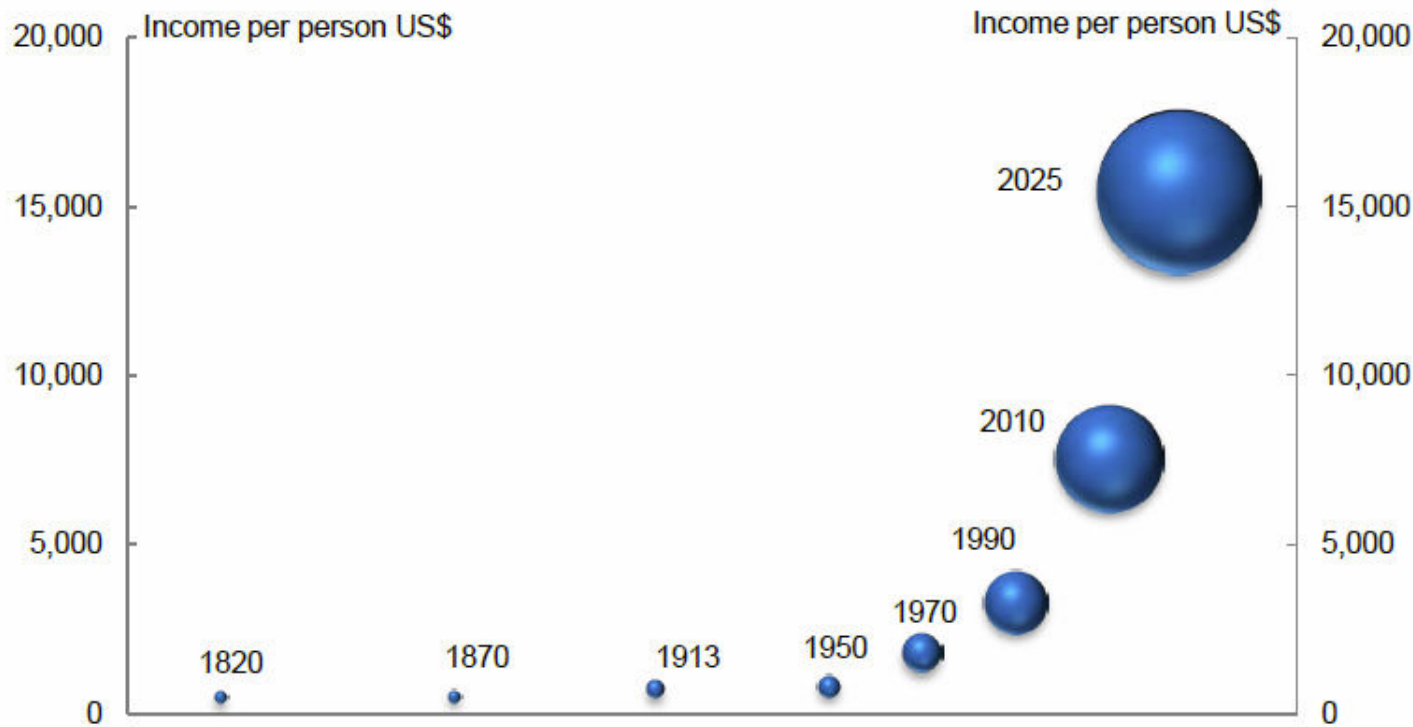


World GDP projections

Source: *The Conference Board Total Economy Database, Maddison (2007), IMF World Economic Outlook Database, World Bank, OECD, United Nations Population Database and Treasury.*

- Note: Purchasing power parity adjusted GDP. ASEAN-5 comprises Indonesia, Malaysia, The Philippines, Thailand and Vietnam.

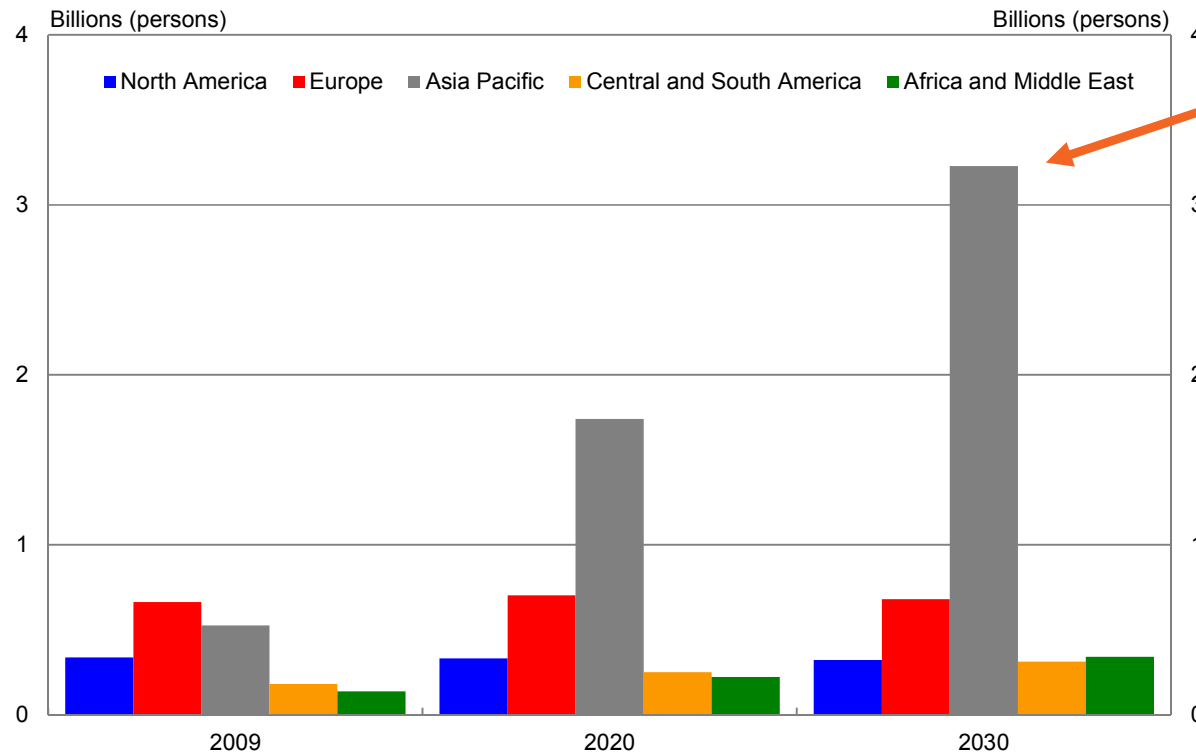
Investors must gain access to growth - the “Asian Century” has started



Asian economic resurgence to continue

Source: Australian Government White Paper

The global middle class by region



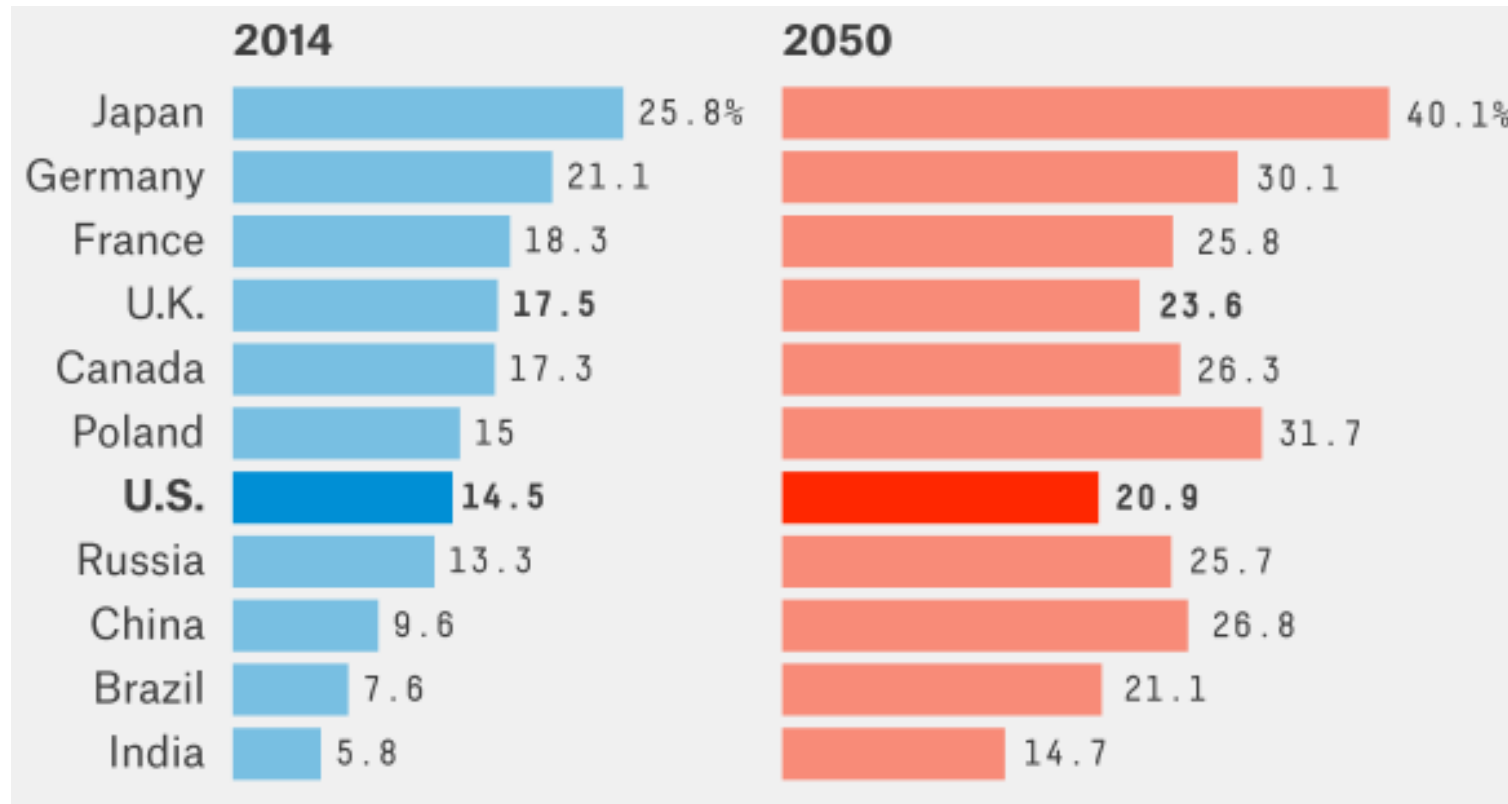
More than 3 billion middle class in Asia Pacific projected

Projections of the global middle class by region

Source: Kharas, H, 2010, 'The emerging middle class in developing countries', OECD Development Centre, Working Paper No. 285.

- Note: The global middle class is defined as those households with daily expenditures between USD10 and USD100 per person in purchasing power parity terms. The lower bound is chosen with reference to the average poverty line in Portugal and Italy.

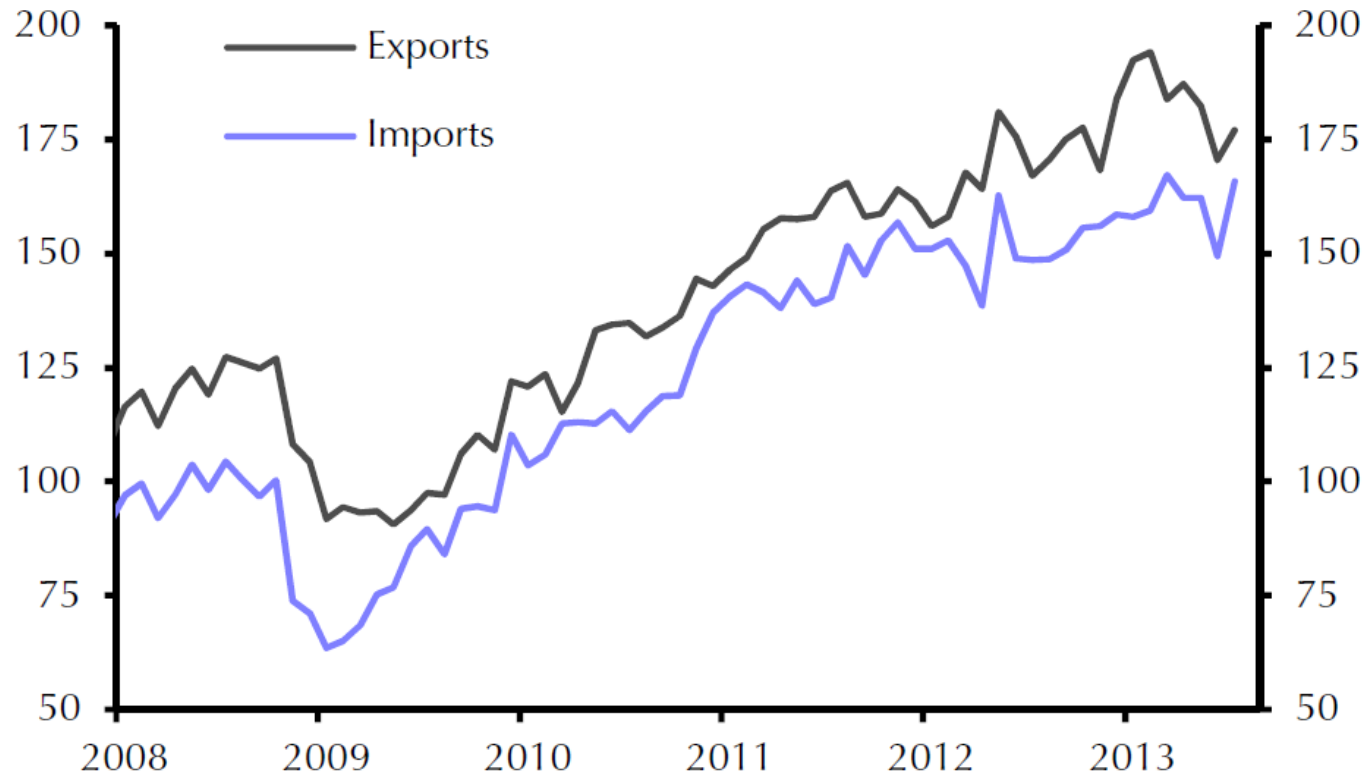
The ageing developed world



Share of Population Age 65 and Over

Source: Fivethirtyeight, US Census Bureau International Database

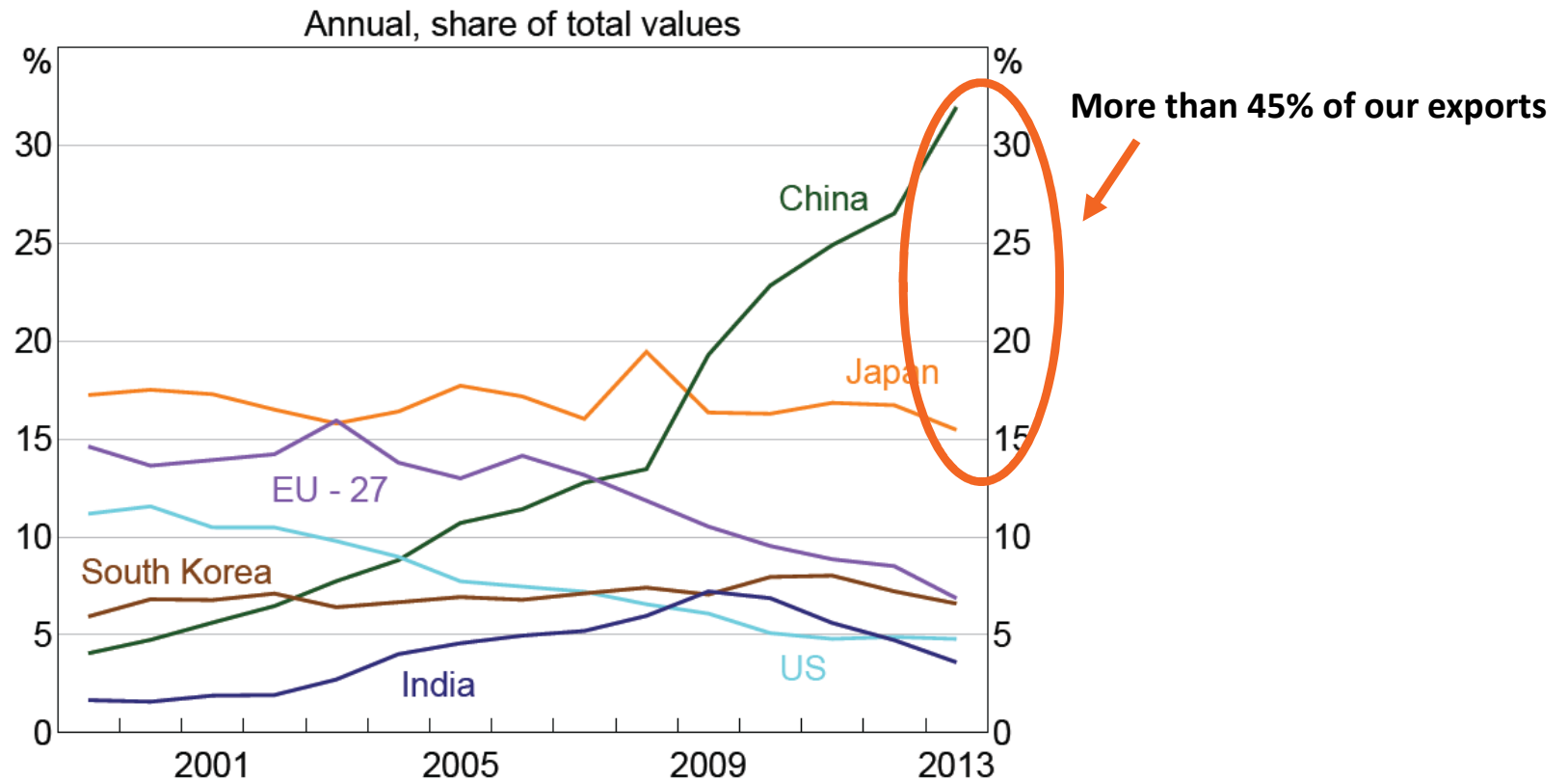
China's trade has grown by 60% in 5 years



Merchandise trade (\$bn, seas. adj.)

Source: CEIC, Capital Economics

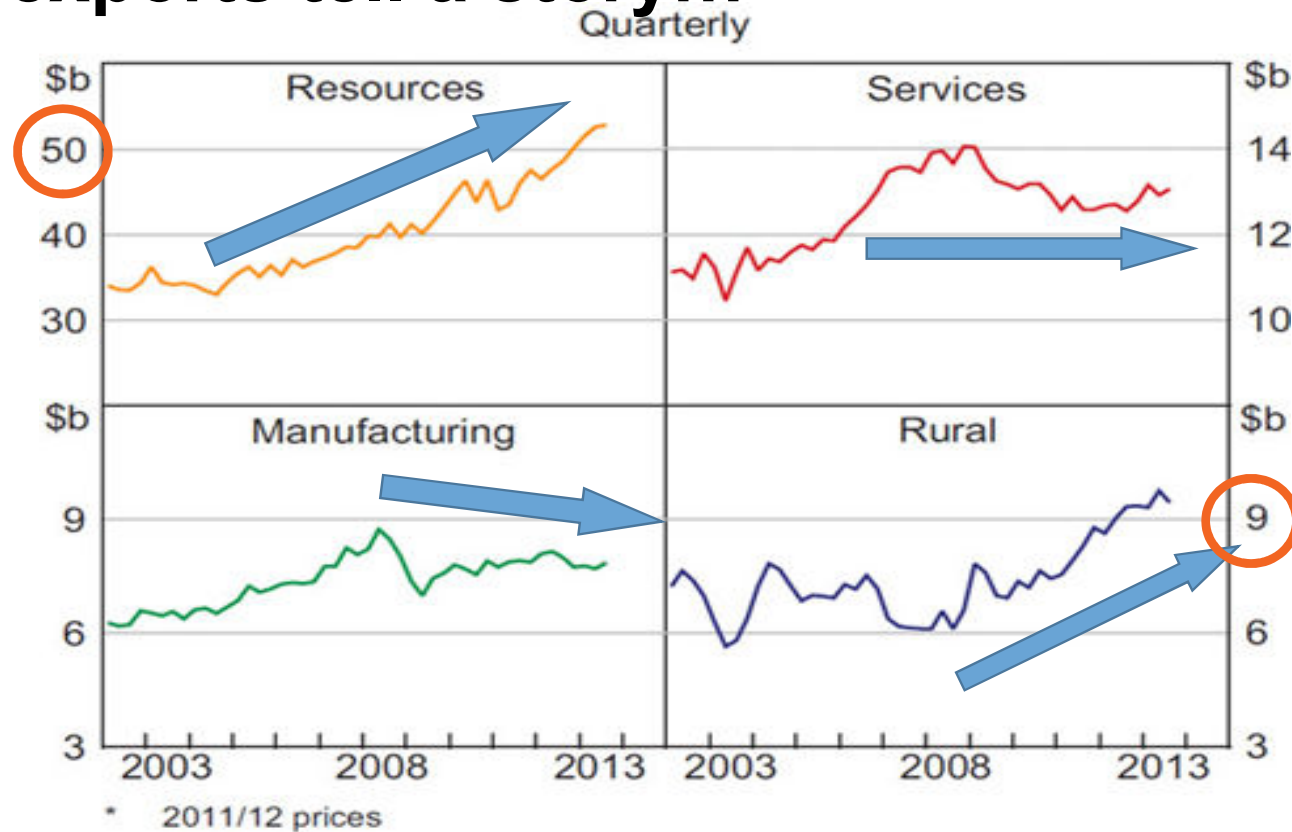
We export to Asia but



Exports by destination

Source: ABS

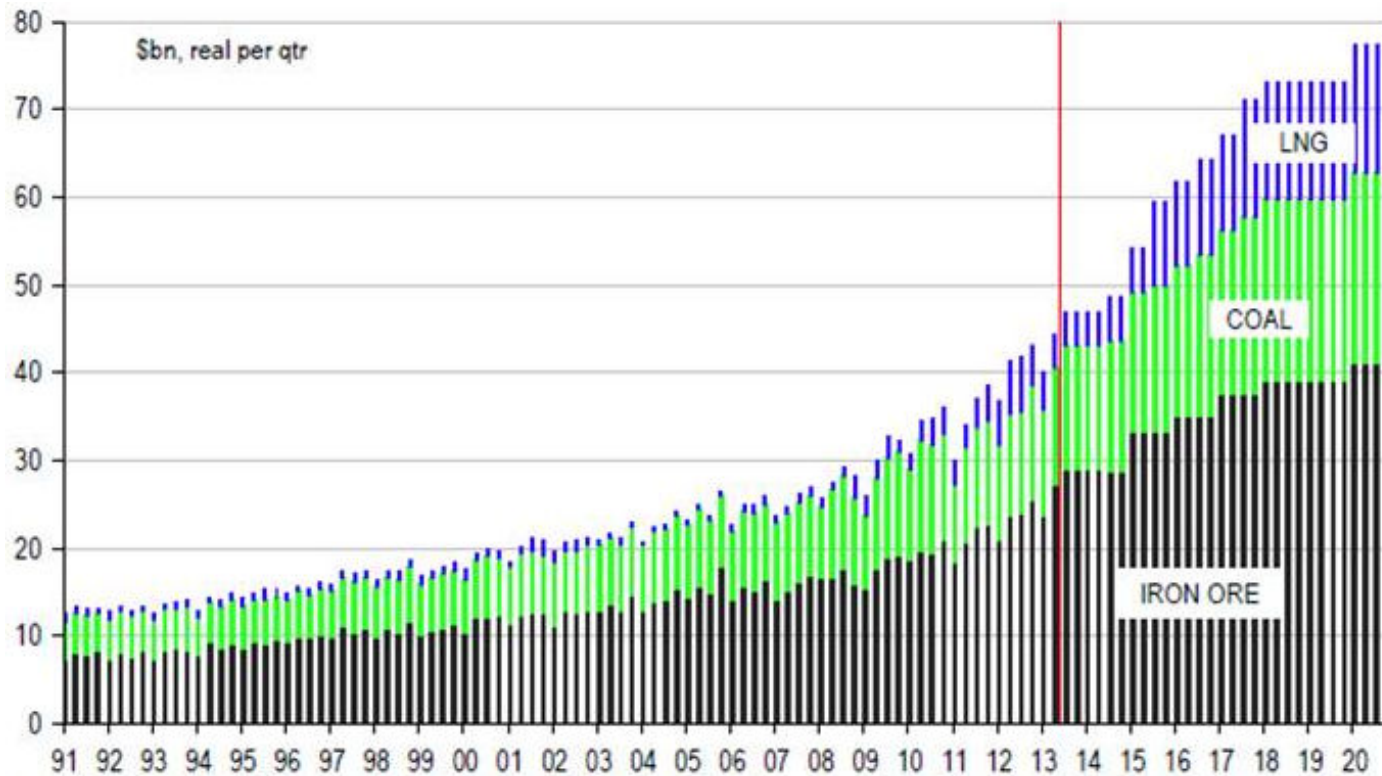
Australian exports tell a story...



Australian export volumes

Source: ABS, RBA

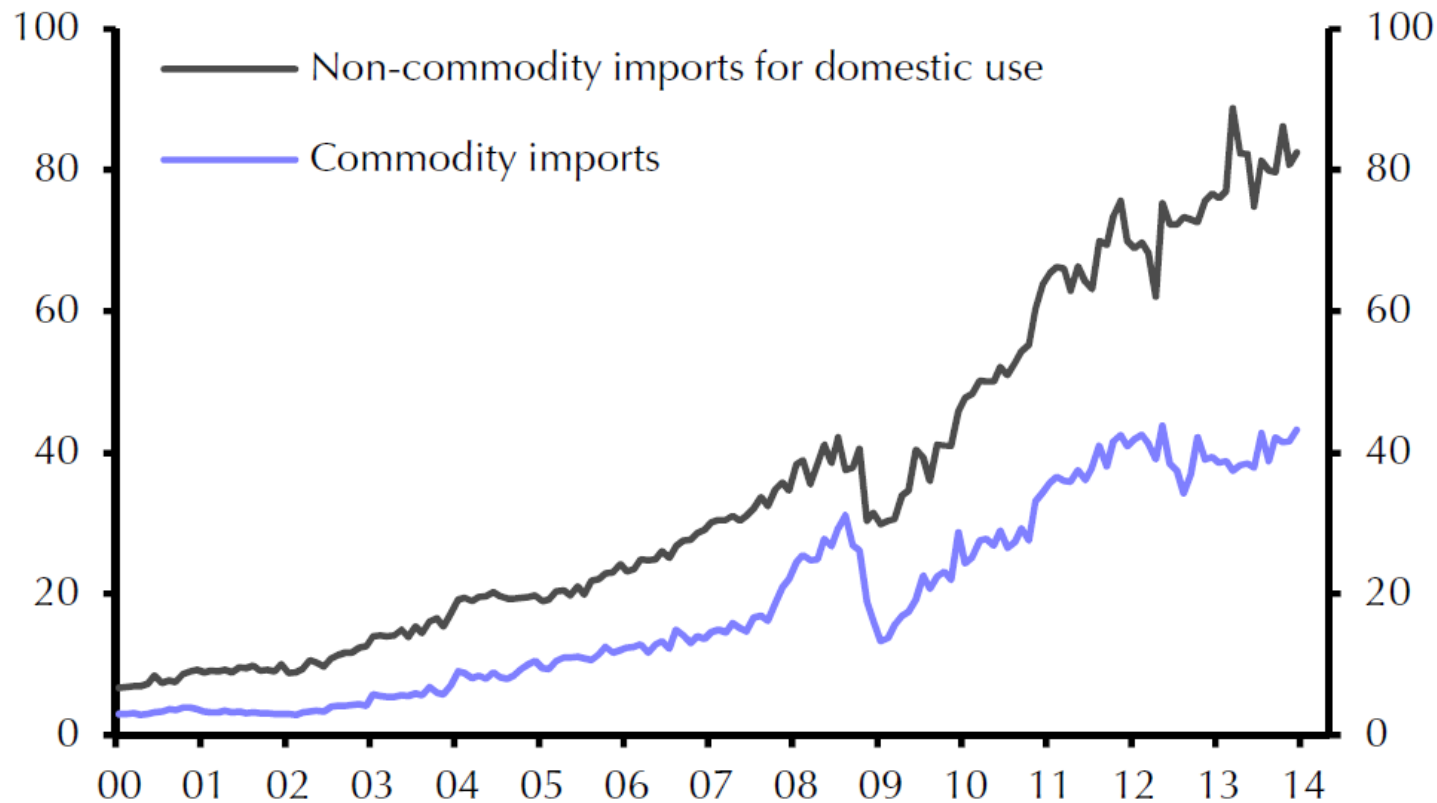
Resource export volumes forecast to rise



The pay-off from the capex boom will be a sharp boost to export volumes

Source: ABS, UBS estimates

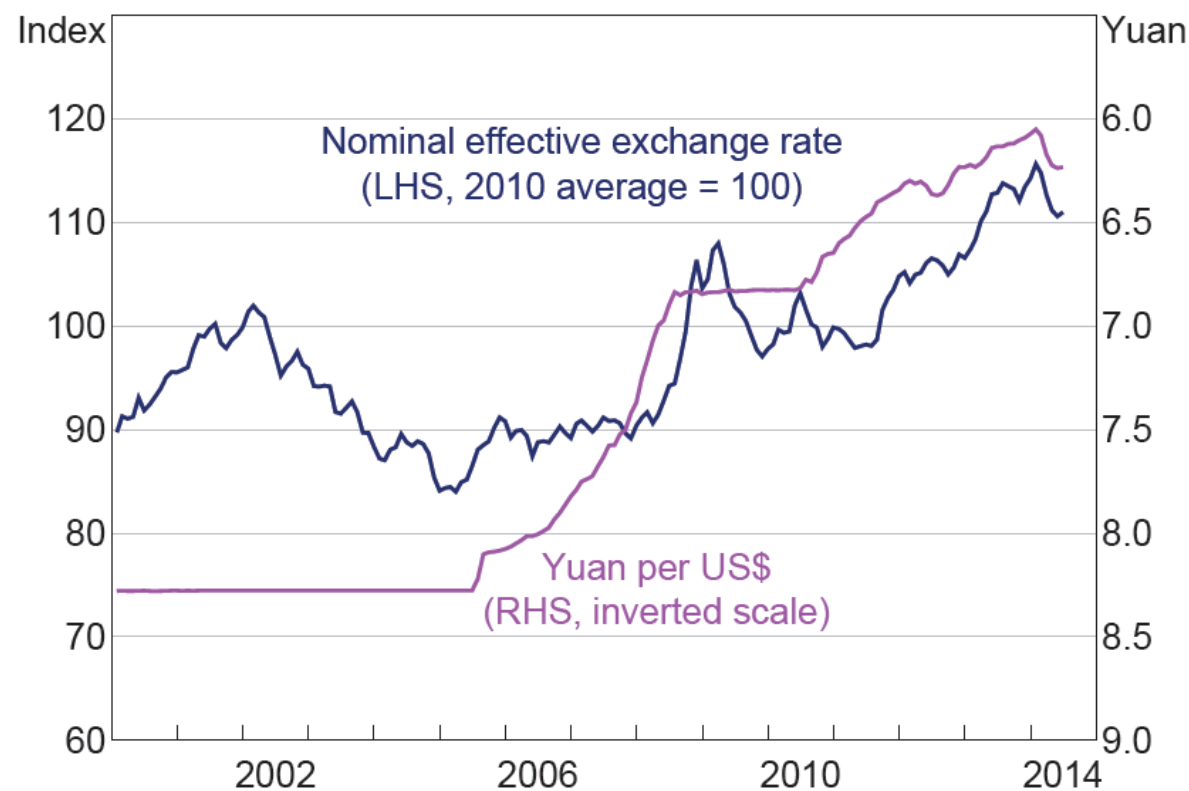
The Chinese consumer emerges



Imports in China (US\$ billion, seasonally adjusted)

Source: Capital Economics, CEIC, Thomson Datastream

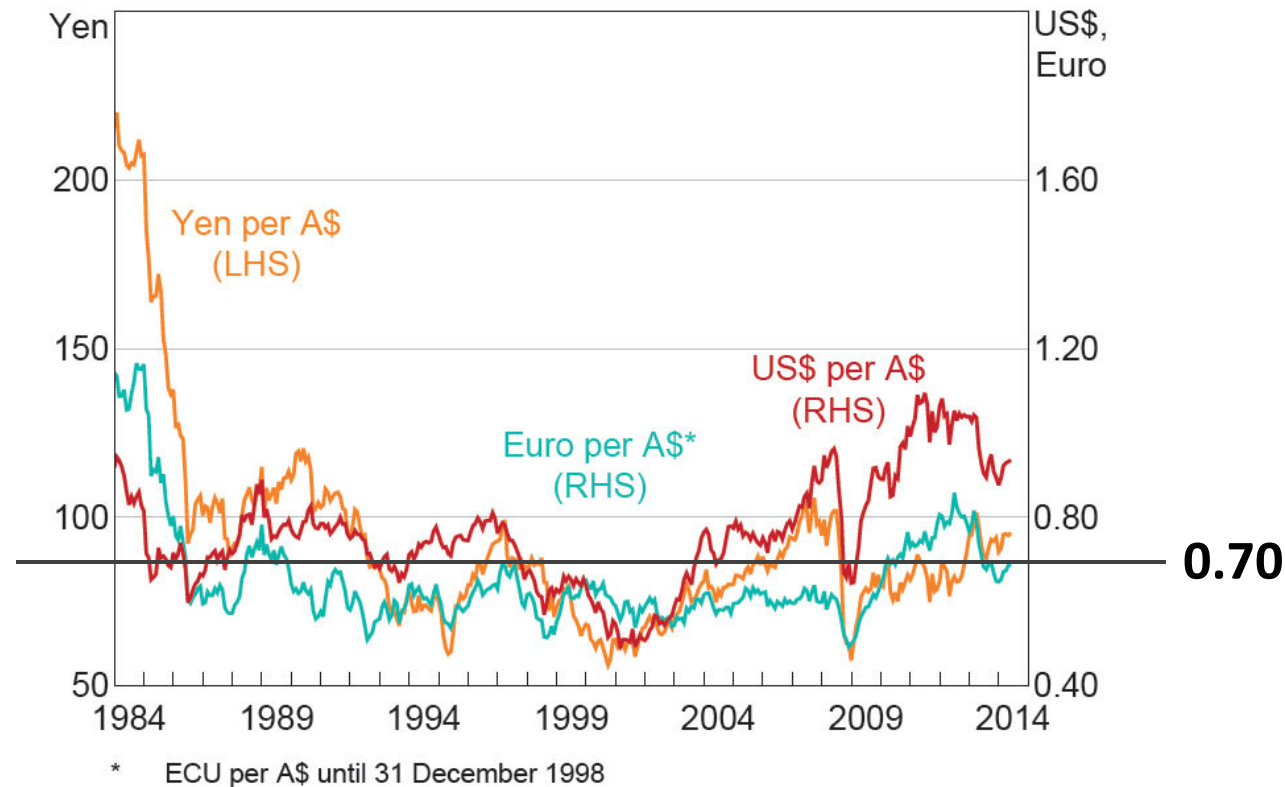
Chinese currency – going one way



Chinese renminbi

Source: BIS, Bloomberg, RBA

\$A 20% above long term average to \$US



Australian Dollar against US Dollar, Euro and Yen

Source: Thomson Reuters, WM/Reuters

Accessing international brands

TOP 50 MOST SOUGHT-AFTER Luxury Brands in China.

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- | | |
|-------------------------|----------------------------|
| 1 Audi 奥迪 | 26 Armani 阿玛尼 |
| 2 BMW 宝马 | 27 Tiffany & Co. 蒂芙尼 |
| 3 Chanel 香奈儿 | 28 Swarovski 施华洛世奇 |
| 4 Estée Lauder 雅诗兰黛 | 29 Jaguar 捷豹 |
| 5 Louis Vuitton 路易威登 | 30 Bentley 宾利 |
| 6 Lexus 雷克萨斯 | 31 Maserati 玛莎拉蒂 |
| 7 Mercedes Benz 梅赛德斯 奔驰 | 32 Rolls Royce 劳斯莱斯 |
| 8 Dior 迪奥 | 33 Sheraton 喜来登酒店 |
| 9 Porsche 保时捷 | 34 Biotherm 碧欧泉 |
| 10 Lamborghini 兰博基尼 | 35 Maybach 迈巴赫 |
| 11 Lancôme 兰蔻 | 36 Omega 欧米茄 |
| 12 Gucci 古驰 | 37 Lincoln 林肯 |
| 13 Hermès 爱马仕 | 38 Borghese 贝佳斯 |
| 14 Volvo 沃尔沃 | 39 Hilton 希尔顿酒店 |
| 15 Land Rover 路虎 | 40 Clarins 娇韵诗 |
| 16 Infiniti 英菲尼迪 | 41 Benefit 贝玲妃 |
| 17 Chow Tai Fook 周大福 | 42 Acura 讴歌 |
| 18 Cadillac 凯迪拉克 | 43 Elizabeth Arden 伊丽莎白 雅顿 |
| 19 Cartier 卡地亚 | 44 Versace 范思哲 |
| 20 Clinique 倩碧 | 45 Anna Sui 安娜苏 |
| 21 Burberry 博柏利 | 46 InterContinental 洲际酒店 |
| 22 Coach 蔻驰 | 47 Rolex 劳力士 |
| 23 Ferrari 法拉利 | 48 Guerlain 娇兰 |
| 24 Prada 普拉达 | 49 Longines 浪琴 |
| 25 Shiseido 资生堂 | 50 Rado 雷达 |

Data range: Jan - Dec 2012

What and international portfolio should look like

Consumer & Health Care

Food & Beverage

Nestle, Coca Cola, AB InBev, Diageo, Unilever

Household & Personal Products

Procter & Gamble, Unilever, Colgate
Palmolive

Luxury Goods

LVMH, Burberry

Consumer Discretionary

McDonalds, Yum! Brands



Technology & Media & Business Services

Software

Microsoft, Oracle

Business Outsourcing

Automatic Data Processing, IBM, Accenture

Electronics and Semiconductors

Samsung Electronics

Business Services

MasterCard, Intertek



Financials, Health Care & Basic Materials

Financials

American International Group

Health Care

Johnson & Johnson

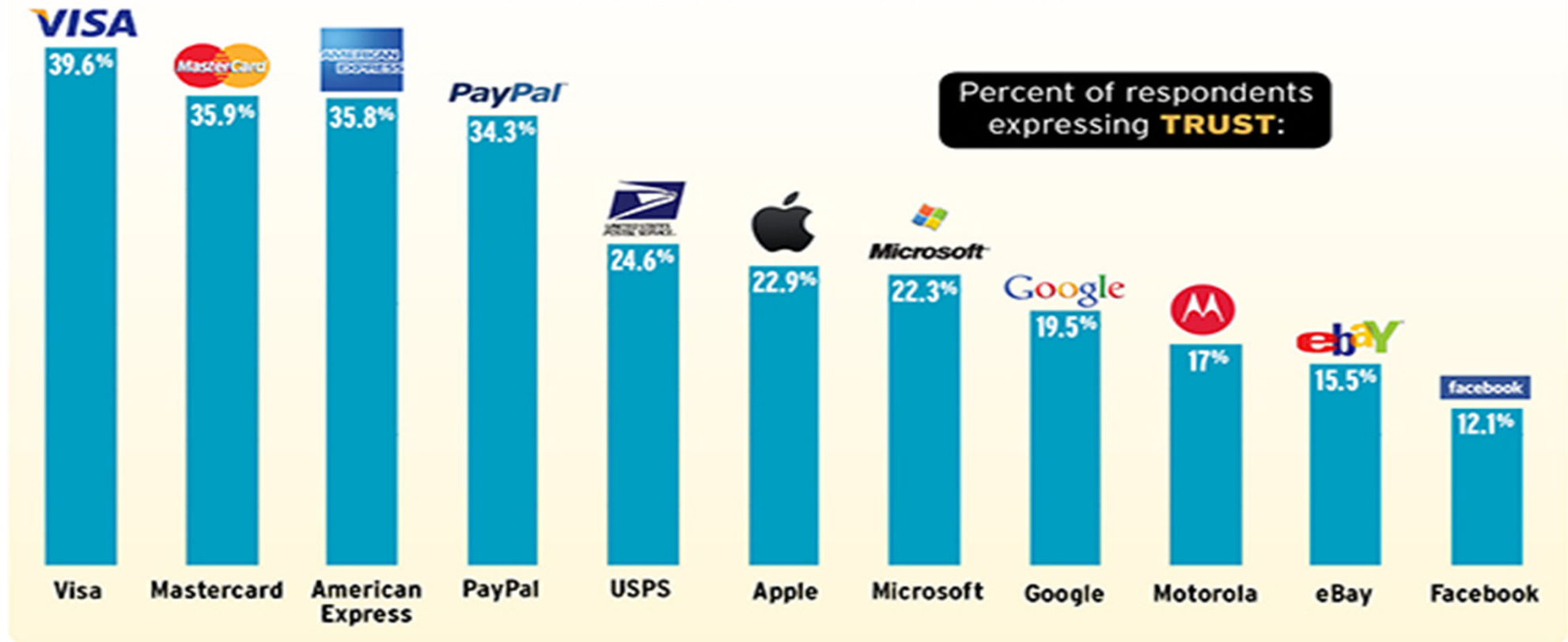
Agricultural Chemicals

Syngenta



Fastest growing area for world consumption

MOST TRUSTED BRANDS IN MOBILE PAYMENTS



Summary

1. The long term growth cycles that are absolutely predictable – the growth in the Asian middle class, their income and therefore their consumption
2. Developed world growth hampered by debt and ageing
3. Australian exports dominated by resources and energy – essential but not necessarily high margin
4. The \$A is overvalued due to QE policies – that will end at some point
5. Major multi-nationals give Australians the best opportunity to access the Asian consumer
6. Buy high growth, well funded, well managed, with established brand names – but know what they are worth!

Generating a real return in the current environment

- Target a 10% per annum return from listed securities
- HOW ?
- 50% in Australian equities target 12% IRR
- 20% in offshore equities target 15% IRR Currency the key
- 20% in hybrids target 6% IRR
- 10% in cash target 3% IRR

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