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The Brand of Chinese Luxury

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MIRAE ASSET
Building on principles

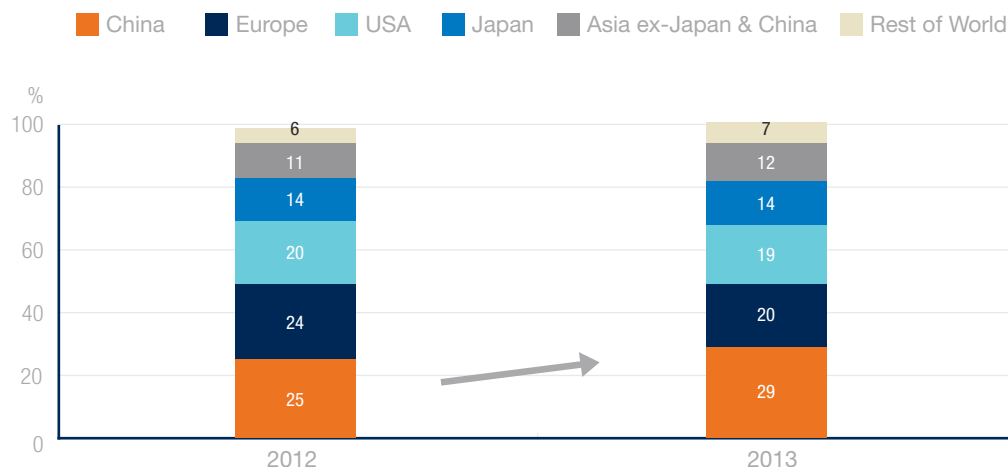
The Brand of Chinese Luxury

Walking Down the Road of Branding

Expanding on China's burgeoning travel numbers, we feel that the current weakness in luxury spending is due to weak consumer sentiment and President Xi Jinping's anti-corruption stance. Nonetheless, strong Chinese demand is intact overseas and firmly outpaces the global average, making Chinese consumers the biggest luxury spenders in the world.

Global Luxury Spending by Nationality

Source: Altgamma, Mirae Asset Global Investments (2013)



China continues to advance in its thirst for the high-end.

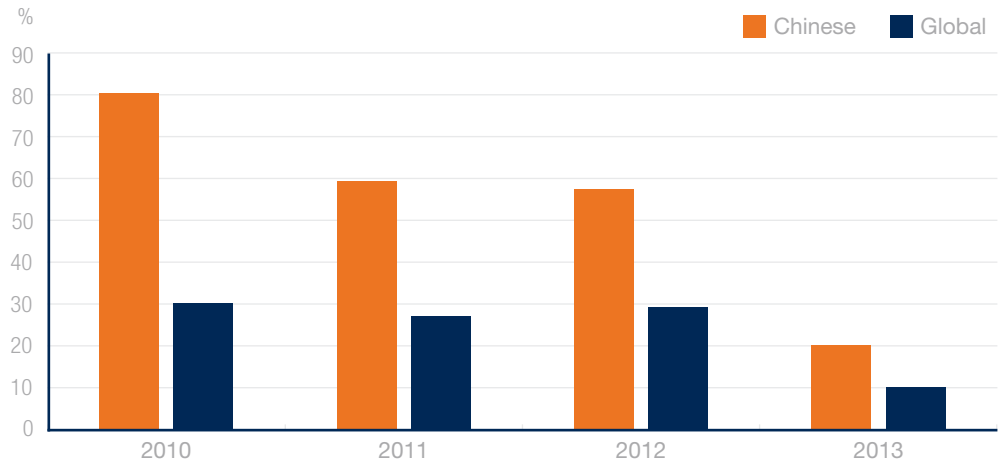
Note: Figures may not sum to 100% due to rounding.

Companies that serve as proxies to the travel theme are set to profit since we believe that the travel boom has yet to peak in Asia. One such company is Samsonite, as the firm's geographical diversification prevents an over-reliance on any single region while its decentralized management allows for more localization and customization of products. Samsonite International's diverse portfolio owns brands such as Samsonite, American Tourister, High Sierra, and Gregory, which helps to capture maximum consumer dollars. Samsonite ranks highly on Mirae Asset Global Investments' factor-based scorecard, such as for sustainability of returns (high return on capital employed) and an impressive management track record with accretive acquisitions flowing to earnings. The stock has re-rated since we initiated a position due to consistent earnings delivery, free cash flow generation and higher dividend payout.

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Growth Rate of Luxury Travelers' Spending

Source: Global Blue, Hurun, Mirae Asset Global Investments (2013)

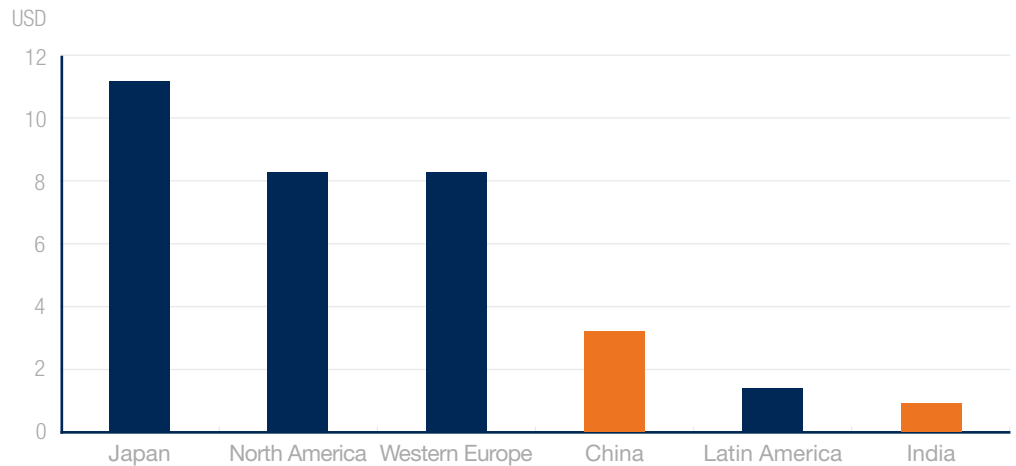


Luxury traveler spending softens, although the Chinese stay ahead of the pack.

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China And India's Spending Per Capita (USD) On Luggage Still Low

Source: Euromonitor, Mirae Asset Global Investments (2014)



Prettier bags and suitcases are on the horizon for Asian travelers.

Made in China

To quote Ravi Thakran, LVMH's Group President for South Asia:

"The European guys, whether British or Italian or French, they know how to brand things, market things, package things well, go for finesse, and the whole quest for quality. Asians have been the factory of the world. They were great at manufacturing things but in building brands they've been short."

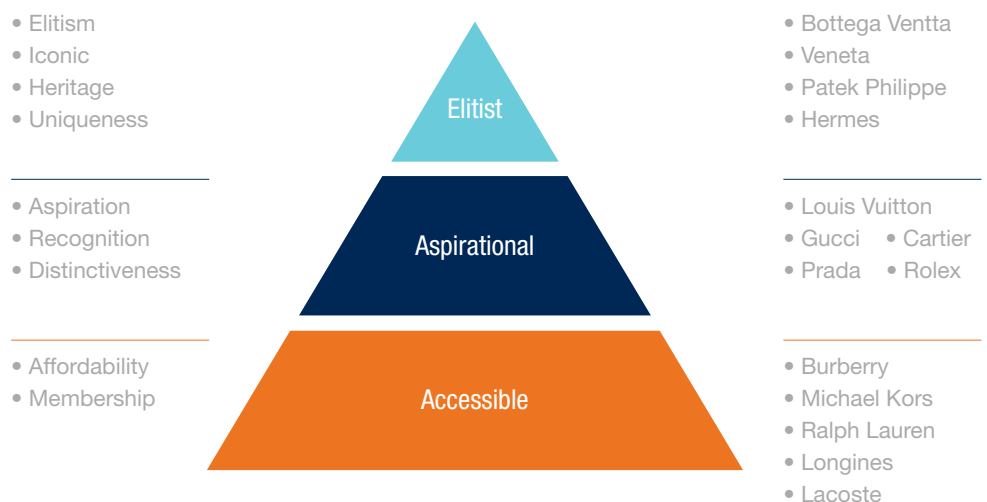
A glance at Interbrand's "Best Global Brands" league table for 2014 alludes to our point that China has yet to develop brands of true international standing, with only Huawei making the cut at no. 94 for the first time this year.

Over 3 in 4 consumers verify the manufacturing origin of luxury products, according to BCG and Altagamma (2014).

Chinese consumers have been known to eschew Chinese products for international brands with quality and heritage. A glance at Interbrand's "Best Global Brands" league table for 2014 alludes to our point that China has yet to develop brands of true international standing, with only Huawei making the cut at no. 94 for the first time this year. The importance of where a product is made transcends geographies, and is especially true for consumers in emerging markets: over 3 in 4 consumers verify the manufacturing origin of luxury products, according to BCG and Altagamma (2014). There are some brands supported by international partners such as Shang Xia (Hermes) and Qeelin (Kering), although they have only met with limited success. Nonetheless, these are niche brands with no real penetration of local consumers and nearly half of their client base is international (who may be interested in experimenting with something exotic, though we believe brand loyalty is limited).

Stratification of Luxury Brands

Source: Mirae Asset Global Investments (2014)



The luxury hierarchy of needs.

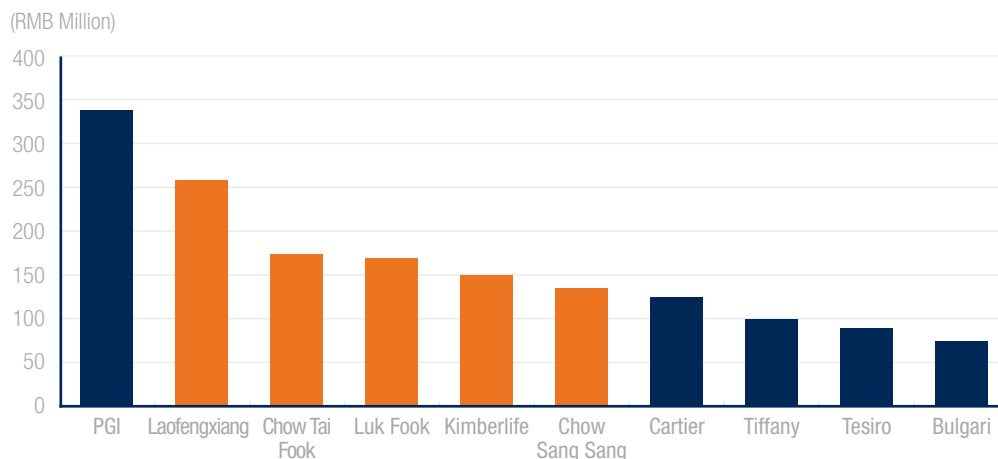
In our stratification of luxury brands, we believe they can be delineated into three broad categories: Accessible, Aspirational, and Elitist. The categorization is a function of perceived exclusivity and price positioning. We find that Chinese luxury brands are mainly positioned towards the accessible end of the market. However, we believe that even though Chinese

We believe that even though Chinese consumer brands lack the history and heritage of their international peers, emerging brands like Chow Tai Fook are well regarded by the Chinese consumer

consumer brands lack the history and heritage of their international peers, emerging brands like Chow Tai Fook are well regarded by the Chinese consumer. Thus it is no coincidence that HK/China gold/jeweler companies are among the top spenders in terms of advertising versus their international peers in China. In addition, a KPMG study points to local jewelry brands as having a relatively higher chance of success when competing with international brands.

Top 10 Jewellery Brands Ad Spend In China

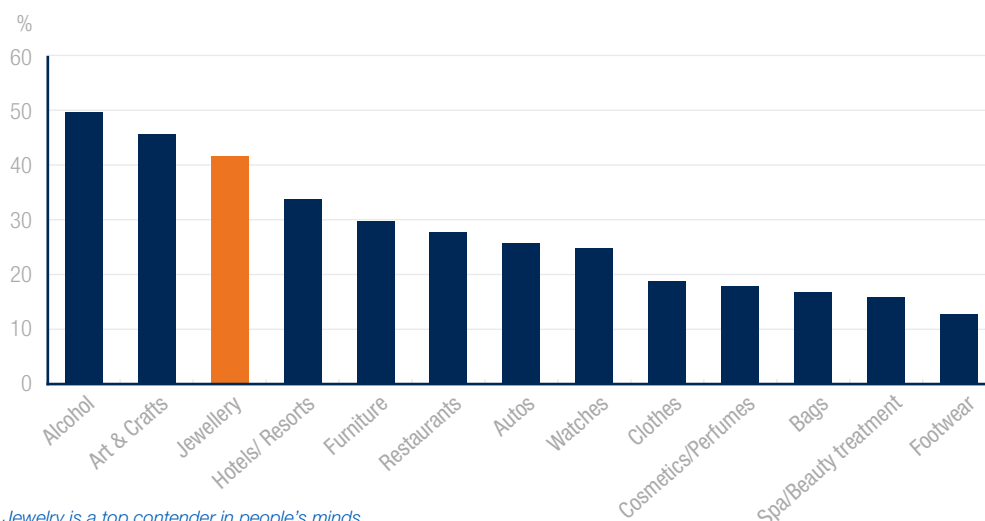
Source: CTR Research, Hurun Report, Bernstein, Mirae Asset Global Investments (2012)



Chinese jewelers are faring well domestically.

Categories Where Consumers Believe Local Luxury Brands Will Take Off

Source: KPMG, Mirae Asset Global Investments (2014)



Jewelry is a top contender in people's minds.

We believe that most Chinese companies have underinvested in their brands. In our view this is the key reason hampering the credibility of "Made in China."

We believe that most Chinese companies have underinvested in their brands. In our view this is the key reason hampering the credibility of "Made in China." Brands help to differentiate products and services by generating demand and making them less substitutable, allowing companies to generate higher returns. On the cost side, one can make the case that strong

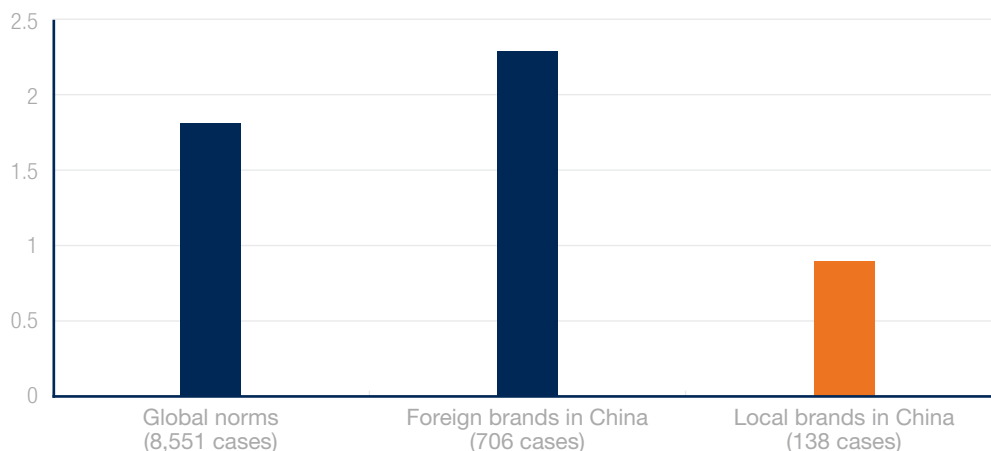
brands attract talent, reducing the cost of recruitment, while at the same time enabling easier access to distribution channels.

Brand Equity Index* Comparison

Source: AC Nielsen, Interbrand, Mirae Asset Global Investments (2014)

* Brand Equity Index is calculated based on consumers' response to their:

(1) favorite brand, (2) brand they would recommend, and (3) willingness to pay a price premium.



The brand equity gap is apparent between Chinese and global companies.

We argue for the lack of brand investment by Chinese companies for a multitude of reasons: 1) previously there was little interest or any structured thinking about brand building; 2) lack of understanding regarding the time, effort, and cost involved in branding; 3) an entrenched manufacturer mentality; 4) lack of expertise in building a brand; and 5) mistaking strong distribution, monopolistic position and scale for a strong brand. That said, we think the scene is evolving especially with President Xi Jinping's wish for Chinese companies to focus on their brand.

More importantly, as China transitions towards a consumption-based economy from being manufacture-driven, Chinese companies are realizing they dispose weak pricing power and that a credible brand is vital to achieving a shift in their business model toward higher margins. While the change may not happen overnight, we are seeing positive signs in that direction. Crucially, as the Chinese consumers mature, there is evidence of them becoming more proud of Chinese brands or displaying positive vibes towards local brands they are familiar with and trust. The confluence of increased awareness of the need for increased investment in brands and a gradual warming of consumer sentiment should provide an incubator for credible local brands to emerge.

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Tourism Permits Greater Sophistication in Purchasing

Source: Mirae Asset Global Investments (2014)



Rahul Chadha, Co-Chief Investment Officer, in Shilla Duty Free in Changi Airport, Singapore.

Investment principles

We identify the sustainable competitiveness of companies

What does it mean to us?

We believe companies that have strong moats will have stable earnings growth and cash flow, and share prices will rise as these companies add considerable value each year. This tenet drives our investment ideas, not short-term trading profits.

How do we apply it?

Sustainable competitiveness scorecards: We thoroughly analyze 30 factors for each company to identify the competitiveness of the company for the long term. This scorecard includes six main categories, which are: Barriers to Entry, Competitive Dynamics, Sustainability of Returns, Management Track Record, Reliance on Outside Support, and Ownership of Distribution/Production Supply Chain.

Extensive company meetings and research trips: Third party research is useful for us to know the consensus, but it cannot be the sole input when making investment decisions. We have investment professionals around the globe; we frequently hold meetings in our offices and conduct numerous on-site visits and meetings.

We assess investment risks with expected return

What does it mean to us?

We constantly monitor the changes in regulation, competitive environments, and managements strategies. We do not fall in love with our holdings, and will exit a position when the investment thesis is no longer valid. The potential upside and downside and our conviction drives the sizing of our positions.

How do we apply it?

In addition to risk analysis done by research team, where we quantify the upside and downside to earnings and valuation, our risk team monitors various parameters including sector volatility and liquidity, and gives active feedback to the research team. Our risk team is aided with a range of third-party risk management systems such as Factset, Axioxa, Thomson Reuters, and Bloomberg POMS/AIM.

We invest with a long term perspective

What does it mean to us?

Many of our investors are investing with us for their retirement, or even for their children. Long-term does not mean only three to five years for us. Our goal is to find companies that can last and prosper in the next several decades and invest in them – these are companies with high terminal values.

How do we apply it?

Analysts and portfolio managers are evaluated by their long-term performance. To add a new position into a fund, we spend considerable time researching and evaluating it. We're not looking to rush in based on a news headline, we are more concerned with generating solid, long-term, well researched ideas.

We value a team based approach in decision making

What does it mean to us?

We do not rely on any single star portfolio manager or star analyst. We believe in sharing information and analysis among ourselves. We rely on our collective knowledge and invest in long-term ideas.

How do we apply it?

We openly discuss and examine key ideas in Investment Committee meetings where investment professionals participate.

We share our research notes globally on MARS (Mirae Asset Research System) online, over email and we have regular video conference calls with other overseas offices.

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