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THE UPGRADING OF CONSUMPTION PATTERNS IN CHINA



Meet the multi-faceted
Chinese consumer



BNP PARIBAS
ASSET MANAGEMENT

The asset manager
for a changing
world

EXECUTIVE SUMMARY

China has achieved rapid economic growth over the past three decades since adopting policies geared towards opening up its economy and implementing reforms. China's leadership recently announced that China has entered a new era of development. Acknowledging the need for China to embrace a new growth model that relies less on exports and fixed investment, the Chinese government reconfirmed its commitment to transition the country to consumption, services and innovation-driven growth over the next 10 years.

In the past 10 years, there have been dramatic changes in Chinese consumers' behaviour and attitudes towards what they buy and how they shop. The most visible trend, observable in the media headlines, is consumption premiumisation. As recent years have seen rising disposable incomes for high-income Chinese households, Chinese consumers today are spending that money on a wider variety of higher quality and pricier goods, and increasingly, on services. To better understand Chinese consumers, it is important to dispel some frequently quoted myths about them.

Looking at the likely path of consumerism in China and thinking about the future, it is important to identify probable consumption patterns ahead of time so that one is ready to capitalise upon them before the shift occurs. Digging deeper into the attitudes and behaviour of Chinese consumers reveals a much more multi-faceted set of consumer segments, each with its own characteristics that determine different shopping habits.

From all our observations of the Chinese consumer, there is one which is clear: there is no longer one "Chinese consumer"; rather there are several different Chinese consumer profiles, of which we have identified five that are quite distinct:

- High net worth individuals
- Premium consuming class
- Working middle class
- Generation Z ("Gen Z")
- Elderly

That said, nearly all Chinese consumers own similar assets and live in similar ways: 1) they nearly all use the internet and smartphones; 2) most live in cities; and 3) all Chinese consumers are subject to the same government policies.

We believe a number of investment opportunities will persist over the next few years as the sectors benefiting from the following three structural trends are well positioned for sustainable growth: 1) Technology and innovation; 2) Consumption upgrading; and 3) Consolidation across various industries. In particular, we expect consumption in China to become an increasingly important driver of growth, presenting significant opportunities to invest in the companies driving this trend. It is crucial to understand the economic, societal and demographic changes that are shaping consumers' profiles and the way they spend. There are vast economic and demographic differences across China so it is important to be able to differentiate between multiple focus points so as to target the best growth opportunities for the future.



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CHINA'S ECONOMIC TRANSFORMATION

China has gone through rapid economic growth over the past three decades since its leadership began to pursue policies geared towards opening up the economy and achieving reforms. Its economic growth was initially predominantly driven by exports. In 2001, China joined the World Trade Organization and from then until recently, growth was driven mostly by urbanisation and infrastructure development. This investment-driven model has now reached a point where some 60% of the population lives in urban areas.

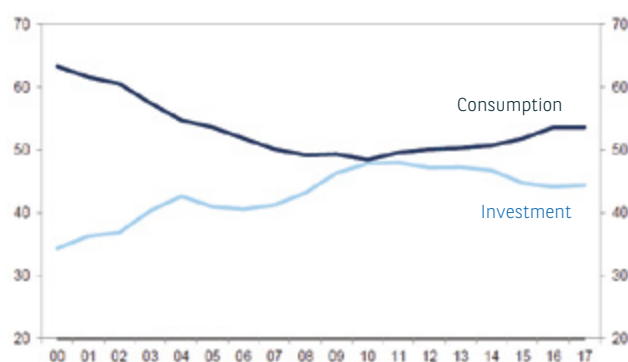
After the high-speed economic growth of the past three decades, the Chinese government has embraced slower, better quality and more sustainable economic growth, referring to this as the 'new normal'. The government's revised growth target reflects the economic rebalancing towards quality growth, while still maintaining the objective of achieving a 'moderately prosperous society' by 2020, by doubling GDP over the period from 2010 to 2020.

The government acknowledges the need for China to embrace a new growth model that relies less on fixed investment and exports. This implies that China must undergo structural reforms to address the challenges arising from the past high-speed growth. China's leadership is now trying to shift its growth model towards more private consumption, services and innovation to drive the economy. Since 2010, consumption has gradually been picking up and become an increasingly important driver of economic growth.

In 2018, total retail sales values in China are expected to equal or outstrip those in the US for the first time, which represents another definitive marker in China's rise to economic superpower status. It marks a tremendous rise over the past 10 years, when retail sales values in China were only a quarter of those in the US. China's rapidly growing middle class has been eager to buy brand-name clothes, cars and smartphones, among other products. Shanghai is now even referred to in fashion circles as the "Paris of the East."

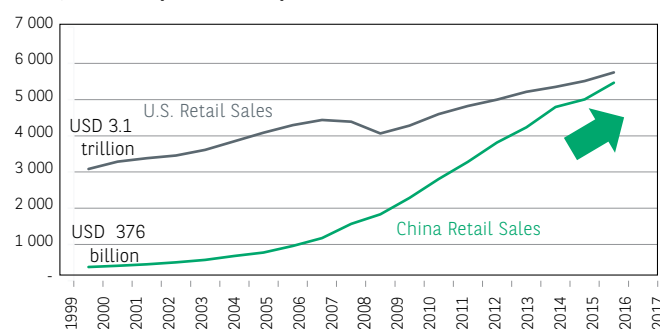
China's consumption becomes a sizable driver for growth

Rotation from investment to consumption since the Great Financial Crisis (Share in nominal GDP(%))



Source: NBS, CEIC, Goldman Sachs Global Investment Research, as of 21 August 2018

China's retail sales are expected to surpass that of the U.S (USD billion)



Source: Bloomberg, BNPP AM, as of November 2018

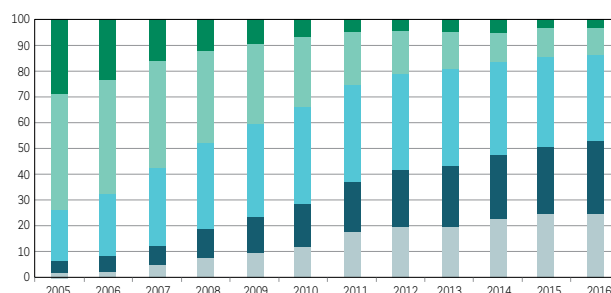
PATH OF WEALTH CREATION IN CHINA

As recent years have seen rising disposable incomes for high-income Chinese households, boosting demand for high value products, we have seen a visible shift from mass-market products to premium range goods. The most visible trend observable in headlines news is consumption premiumisation. This is to a large extent the case; it is a phenomenon driven mainly by the emergence of affluent, upper middle and middle classes. From a negligible proportion of the population in 2005, these consumers now account for some 40% of urban households. The emergence of these new affluent classes has driven the upgrading of consumption (staples and discretionary). As households rise to higher income levels, their consumption patterns change. When looking at China's urban annual per capita consumption expenditure in renminbi, the proportion spent on homes, transport and communication as well as educational and cultural services has accelerated.

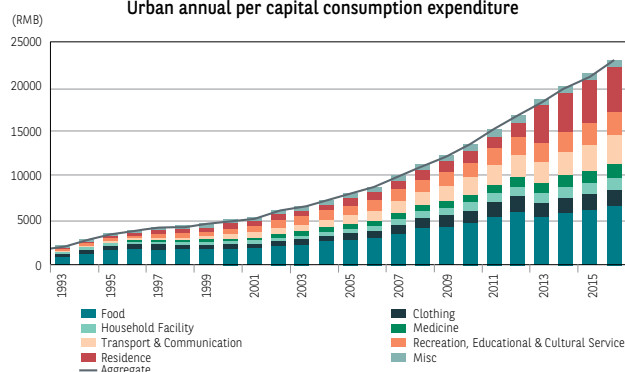
To take the example of the automobile market, China's vehicle purchasing saw a robust compound annual growth rate (CAGR) of 24% in urban China between 2006 and 2016. Today, China's automobile market is the largest in the world, selling 24 million cars a year (compared with 18 million a year in the United States). We have also seen that sales of more expensive SUVs have grown more rapidly than those of basic saloon cars in China.

Looking at the likely path of consumerism in China and thinking about the future, it is important to identify probable consumption patterns ahead of time so that one is ready to capitalise upon them before the shift occurs. It is also important to understand and analyse what has happened in the past to better understand today's consumers and better predict the future path of consumption evolution.

Income-wise classification of China's Urban households (%)



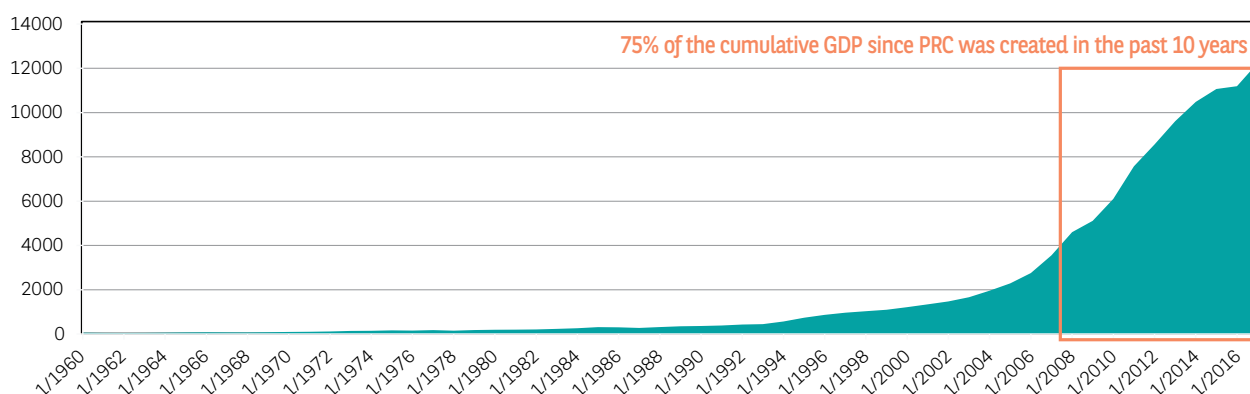
Along with different income levels, consumption pattern diffuses differently
Urban annual per capital consumption expenditure



Source: BBVA Research, China National Bureau of Statistics, as of 2017

To understand the path of wealth creation and identify who has money in China today, it is fundamental to look back at the past 10 years. Since the creation of the People's Republic of China (PRC), almost 75% of China's cumulative GDP growth was created in the past 10 years. It is crucial to understand who has benefited from this, and in what ways, so as to understand the social profiles and consumption patterns of China's wealthy households today.

China's gross domestic product (GDP) in USD billion



Source: CEIC, BNPP AM, as of October 2018

In the seventy years since the PRC was created, the country has had two major baby booms, one in the 1960s / 70s and one in the 1980s / 90s, each generating a large population group that would later become a significant participative force in growing the economy.

WEALTH EFFECT

Ten years ago, those born in the baby boom of the 1960s and 1970s had reached their 30-40s and begun to contribute to China's economic development of the past decade. These consumers represented the first 'wealth generation' who, although generally under-educated, represented China's new wealth class looking for the best in the world. During this period, three key consumer themes emerged, centred on:

- 1) urbanisation (which rose from 45% to 60%);
- 2) the national property wealth effect (which multiplied by some two to three times) and
- 3) internet penetration, which surged from 20% to 60%.

Most of this generation gained their wealth from being entrepreneurs who invested in manufacturing, in supporting the urbanisation and property industries or in establishing internet companies. These people were referred to as 'the new wealth of China' who drove a premiumisation trend on all consumer staples to discretionary fronts.

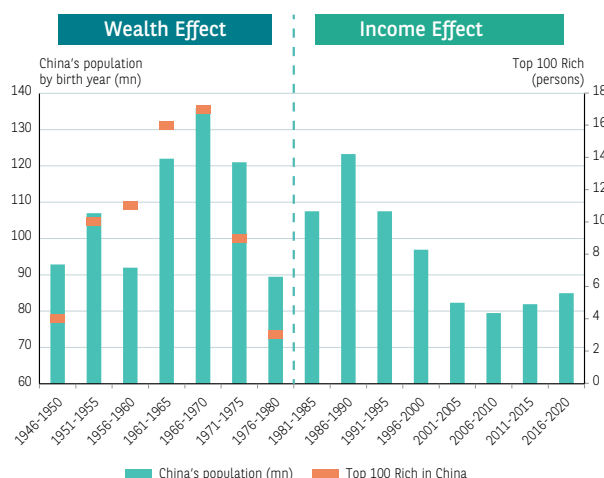
INCOME EFFECT

The second baby-boomer generation born in the 1980s / 1990s are now workers who have recently entered the labour force to earn their living. They are actively participating in China's economic development and are part of the emerging middle class which, in consumer terms, is more functionality-driven, i.e. looking for better quality products but at competitive prices. Their children (there has been another smaller baby boom in the past ten years are already starting to grow up as a new wave of consumers (referred to as Generation Z or 'Gen-Z') that is itself starting to make headlines.

China's economic growth is increasingly reliant on consumption and the consumers spurring that growth will be richer, older and more heterogeneous than they are today. Consumption in China will be increasingly shaped by a booming middle class, older consumers, digital natives, a rapidly expanding economy sharing technological advances and the growing importance of data, among other trends. This helps us to identify the major trends that will define consumption in China in the next 10 years and the steps that companies can take now to get ahead of them.

We will first analyse these different groups of consumers and then try to define them more fully.

Profile of China population by birth year



WHO ARE THEY?

TODAY

- 1- Age 10-20: Generation Z ("Gen-Z")
- 2- Age 30-40: Emerging Middle Class
- 3- Age 50-60: Rich & Affluent Class

- ↑ Internet penetration: 20% -> 60%
- ↑ Urbanization: 45% -> 60%
- ↑ National property price: 2-3x

PAST 10 YEARS

- 1- Age <5 (New Born)
- 2- Age 20-30 (Young Workers)
- 3- Age 40-50 (1st Generation Wealth)

Source: BBVA Research, China National Bureau of Statistics, as of 2017

COMMON MYTHS ABOUT CHINESE CONSUMERS



MYTH 1

CHINESE PEOPLE ARE NO LONGER POOR

There are certain periods during which some consumer groups' heavy spending makes a significant impact on sales data, which is then reported in the foreign media. What overseas observers tend to focus on is essentially the consumer behaviour of upper-class Chinese (the first wealthy generation who buy only the best in the world and more premium products than any other group) as well as the wealthy residents of Beijing, Shanghai and Guangzhou, and affluent tourists. Together these comprise less than 1% of China's population – fewer than most observers may believe. In recent years, the next wealthy generation has started to extend to new consumption horizons. Even so, that does not mean every Chinese consumer spends big. While the Chinese communists' embrace of capitalism has lifted 300 million people out of poverty over the past three decades, there remains an enormous disparity of income.



MYTH 2

CHINESE ARE BIG SPENDERS, LOOKING FOR MOSTLY PREMIUM PRODUCTS

Some believe that saving money is deeply rooted in the Chinese culture, while others question this notion when they see Chinese consumers making expensive purchases that hit the headlines. Chinese consumers have one of the highest saving rates in the world at over 30% of household disposable income (in the US it is approximately 6%). There are many reasons for this, including the high return on investment (e.g. residential property) which encourages people to invest; putting money aside for a college education for their single child; and the uncertainty over paying for medical care and having a big enough pension pot. Maintaining a basic safety net is one of the key reasons middle-class consumers and the poor will not use their savings on luxurious products and services. Rather, they tend to spend more smartly, looking for value-for-money products and services.



MYTH 3

CHINESE HAVE ALL FAST-CHANGING TASTES

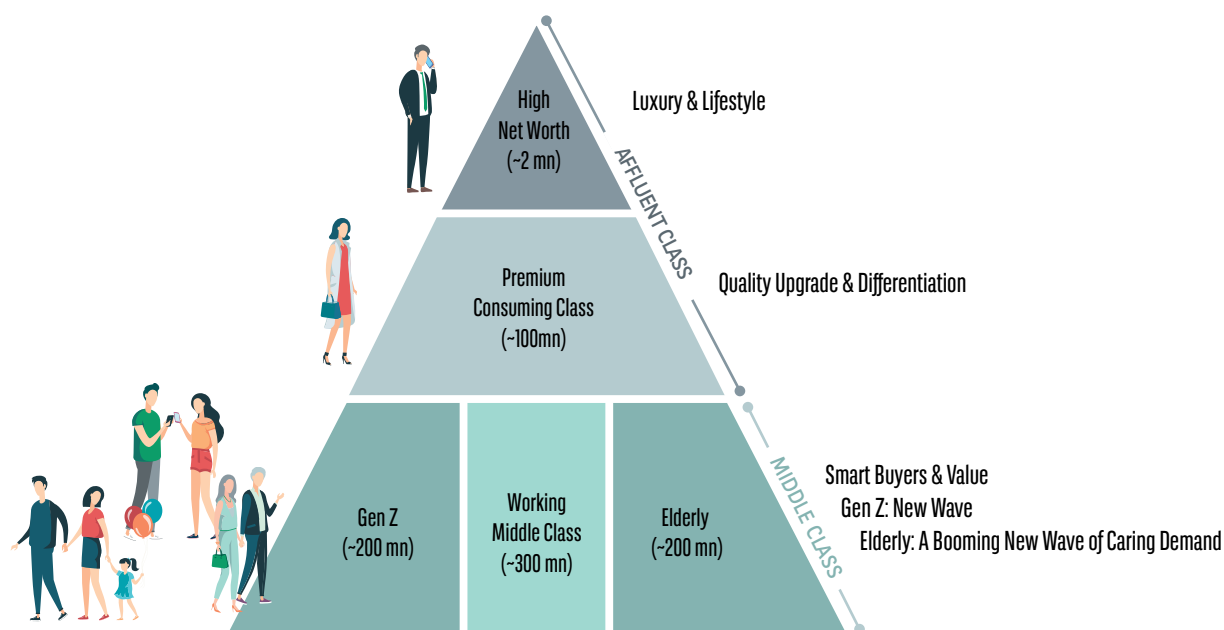
The Chinese are going through a major shift in their eating habits. Fresh fruit, cheese, cream and tea are all among the food categories that have seen rapid growth and this is likely related to the fast-paced lifestyle and westernization of urban living. The market is extremely segmented. The rate of growth, consumer retail habits and level of economic and social development all differ widely from region to region. Those that were growing yesterday may be lagging tomorrow.

From our investment team's point of view, all these observations are true. China should be viewed as an assemblage of pieces, a little like Europe. While each of the various consumer patterns coexist, each of them on its own is far from providing an overall picture of Chinese consumerism. Consumers behave and buy differently at different ages, wealth levels and in different living environments. There are thus many different consumer profiles in China, and understanding each of them is key to staying ahead of investment opportunities.

MULTI-FACETED CHINESE CONSUMERS

The chart below presents a breakdown of the multi-faceted profiles of Chinese consumers.

Chinese consumers have become vastly diverse and multi-layered. Each layer is as sizable as a standalone country.



Source: BNPP AM, as of October 2018. Trademark, copyright, and other intellectual property rights are and remain the property of their respective owners.

THE TRUTH IS THAT CHINESE CONSUMERISM IS INCREASINGLY BECOMING DIVERSE AND MULTI-LAYERED

When the Republic of China was formed, most of the population was poor and only a tiny portion was rich; the breakdown of consumer profiles was thus very simple. Today, with much greater affluence on the back of rapid economic development and reforms, the profile of Chinese consumerism is highly diverse and multi-layered.

From our observations, we have classified the majority of Chinese consumers into the following groups (see chart above):

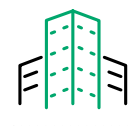
- **High net worth individuals:** Approximately two million people who have net investable assets over USD 1 million.
- **Premium consuming class:** About 100 million people looking for higher quality and differentiated goods.
- **Working middle class:** Representing the bulk of the population with about 300 million people.
- **Generation Z ('Gen-Z'):** A generation of approximately 200 million young, tech-savvy, fast-spending consumers.
- **Elderly:** Consumers over the age of 65, who number approximately 200 million.

While each of these classes is distinct, they share some similar assets and live in a similar way: **1)** Internet: nearly all use internet and smartphones ; **2)** Nearly all live in cities ; **3)** They are all subject to the same government policies

But Regardless of Classes,
They Also Live in These Same Ways:



High Penetration
of Smartphones / Internet



60% Urbanization
Rate On The Rise



Under The Same
Government Policies

CHINA'S HIGH NET WORTH INDIVIDUALS

This group represents a total USD 10 trillion of total wealth. The top 100 richest among them provide a useful profile. After breaking it down by birth age, we see that the 1960s-70s baby boomer generation have become China's richest people. Most of them prospered from a number of expansion waves such as the manufacturing boom, the intensive urbanisation period, the period of fast internet development and the acceleration in property ownership/construction. Approximately 50% of China's top 100 richest people are from the industrial sector, while 25% are from the property sector and the remaining 25% from the internet sector. Overall, China's high net worth individuals represent less than 1% of the total working population, but 10% of private consumption expenditure.

Today, this category of consumers is already aged over 50. Their existing total wealth of USD 10 trillion is forecast to outpace China's GDP rate (currently around 6.7% annually). These consumers mainly seek luxury goods, a luxury lifestyle and differentiated products and services. Some have no spending limit. Their predominant needs are financial services, wealth management, services and experience-related activities.

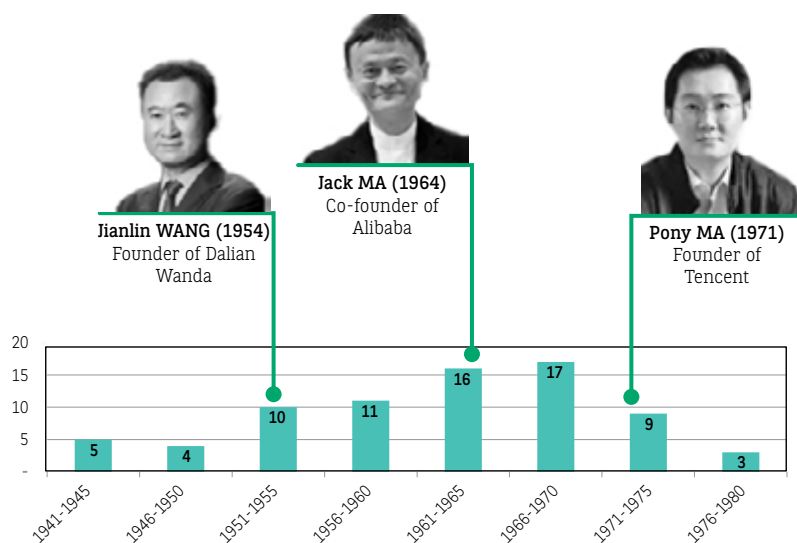
THE TOP THREE RICHEST PEOPLE ARE:

- **Jianlin Wang** (born in 1954, founder of Dalian Wanda) made his wealth from the property industry
- **Jack Ma** (born in 1964, founder of Alibaba) prospered from the internet development period during which the manufacturing capacity industry attempted to bridge the consumer supply and demand gap
- **Pony Ma** (born in 1971, founder of Tencent) built his wealth on the internet's development.

CHINA'S HIGH NET WORTH

REPRESENTS ~USD 10 TRILLION OF TOTAL WEALTH

CHINA'S TOP 100 RICH BY BIRTH YEAR (# OF PERSONS)



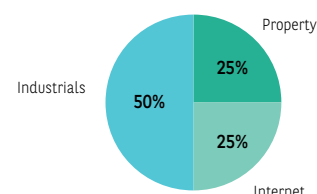
TOTAL WORTH

- ~2mn millionaires and billionaires
- USD 10 trillion wealth management market

PROSPERED FROM

- Manufacturing Boom
- Internet Development
- Urbanization

BY INDUSTRY



(): Year of birth. WTO: World Trade Organization. Source: China NBS, CNPolitics, Goldman Sachs Global Investment Research, as of January 2015

CHINA'S PREMIUM CONSUMING CLASS

We talk more often about this class of consumers, which is so large in terms of population it equates to a developed country like Japan.

Based on this group's average household income, these consumers earn an annual salary of more than USD 30 000, which is equivalent to the average disposable income of Japanese households.

This enormous class of consumers lives and spends its money in China, but it also travels overseas to buy. They spend mostly on personal development, travelling and rent expenses. More than 100 million Chinese people travel abroad every year

and they are mostly from this category. We observe that these Chinese consumers tend to spend more on tailor-made personal development, travel and lifestyle choices than on clothes or entertainment.

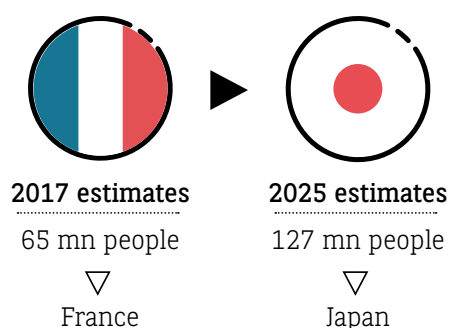
We believe that high-end consumption in China is in the early stages of an extended sweet spot. We expect to see rapid and sustained demand growth across a number of sectors such as ultra-premium baijiu, luxury cars, luxury hotels, high-end smartphones and other luxury goods. We believe that the intrinsically differentiated brands of high-end consumer companies capable of satisfying these needs are uniquely placed to capitalise on this growth.

CHINA'S PREMIUM CONSUMING CLASS (PCC)

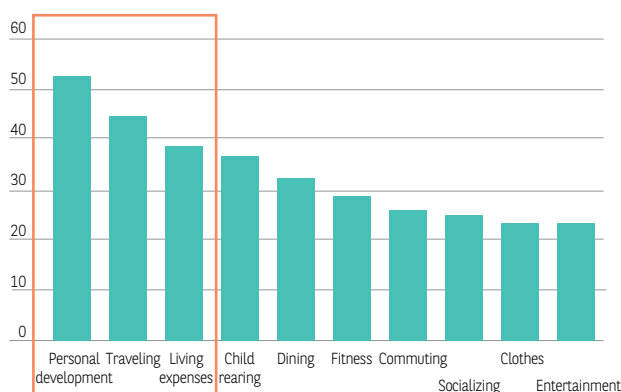
EQUALS TO A TYPICAL SIZE OF DEVELOPED COUNTRY



CHINA'S PCC WITH HOUSEHOLD INCOME > USD 30,000 IS APPROACHING THE SIZE OF JAPAN



IN 2017, CHINESE MOSTLY SPENT ON PERSONAL DEVELOPMENT, TRAVELING & LIVING EXPENSES (% OF CHINESE MOSTLY SPENDING IN 2017)



Source: 2017 Bernstein China Premium Consumer Usage & Attitudes Survey, Wiki Commons, EIU Canback estimates, as of May 2018

Source: Channel Wu et al., 2017 New Middle Class Report, Sixth Tone, as of 1 August 2017

CHINA'S MIDDLE CLASS

Representing the backbone of Chinese consumers, China's middle class today is mainly characterised by:

- Highly-proficient internet users and information searchers
- Smart buyers whose budgets are focused on functionality, efficiency and value for money
- Using the core household income for the family's benefit to support their children and, increasingly, their parents

China has a core working population of approximately 300 million, which we define as China's middle class. They are mostly in their 30-40s. During the wave of urbanisation in China, they moved from farms and villages to over 600 different cities. They make the most of their household incomes, not only supporting their children but also increasingly supporting

their parents. The middle class's household income tends to be spent more on life services given the higher dependency ratio. China's over-65s population is rising.

This group includes mainly smart buyers who keep to their budget. They have the pressure of providing for their children and parents, so they look for functionality, efficiency and for value for money. They grew up on the wave of the internet development, so they tend to be more technologically at ease than previous generations and are highly proficient internet users and information searchers. They can always find the best deals and useful information on the internet. Many Chinese middle class consumers have already embraced the sharing model of consumption in areas such as taxi transportation and bicycle sharing, which gives them the advantages of greater access and lower costs.

CHINA'S MIDDLE CLASS



Highly-proficient internet users and information searchers



~300 MILLION CORE WORKING POPULATION



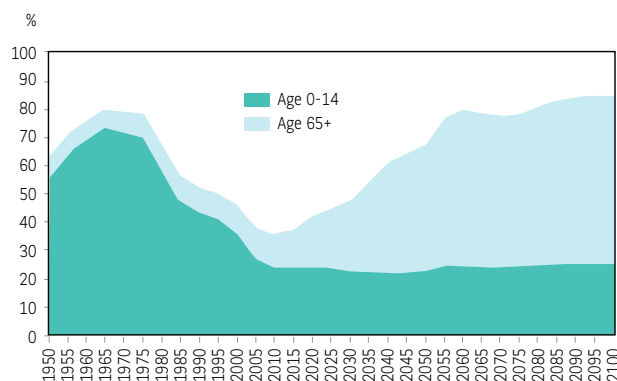
Smart buyers with budget, looking for:

- Functionality
- Efficiency
- Value for money

CHINA'S MIDDLE CLASS

- Age 30-40, growing from the young-workers generation in the past 10 years
- Born or moved into the cities along with the wave of urbanization, spreading across 600-700 cities
- Making the core household income for the families: support children and parents

CHINA'S DEPENDENCY RATIO IS RISING



Source: CLSA, UN DESA / Population Division, World Population Prospects, 2017, as of 31 August 2018

CHINA'S GENERATION Z ('GEN-Z')

This group has already been given numerous nicknames, such as *Z-lennials*, *iGen*, *Gen Tech*, *Net Gen*, *Neo-Digital Natives*, *Plurals*, and *Screenagers*. This is a clear sign of the considerable interest in this post-millennial class of Chinese consumers.

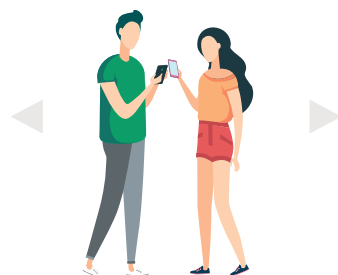
Born in the 1990s, these young people differ from their predecessors. First, they generally received substantial financial support from their parents or grandparents, and they grew up in a period of rapid improvement in their quality of life which were empowered by technology and digitalisation. Generation Z ('Gen-Z') is definitely the internet and smartphone generation, and they are making the headlines.

Most of them have affluent parents and given that they are nearly all single children, they tend to have a larger

propensity to spend and are less price conscious than previous generations. Although they are not earning money yet, they are active spenders. They are technologically savvy consumers who were almost literally born with a smartphone in their hands.

Well taken care of by their parents and grandparents, they are generally the best educated of all generations in China. They tend to be highly individualistic in how they seek happiness. This young generation tends to be more open to new ideas and products than older consumers and prefers to express their individuality of perspective and openly share their life experiences. They tend to seek instant gratification and seek high standards in terms of convenience, quality and variety. Gen-Z's tastes tend to change rapidly.

CHINA'S GEN-Z



~200 MILLION NEW GENERATION
OF CONSUMERS BORN AFTER 1995

Mobile Natives

(Internet (post-80s) and
smartphone (post-90s)
generations)

Health & Well-Being

Happiness Seeker

Individualistic
Fast changing tastes

Most Educated Generation

Overseas education

Willing to express themselves

Embrace new thing

Higher Propensity to Spend

Mostly single child

Source: BNPP AM, as of October 2018

CHINA'S ELDERLY

Like many other countries, China has an ageing population. But the scale of this phenomenon in China is unique. It is estimated that approximately one-third of the country's population will be over 60 by 2050, up from the current 17%, according to the vice director of China's National Working Committee on Ageing. Given that the percentage of people of working age is set to shrink over the same period, this will undoubtedly create economic challenges as the pressure on social services increases. Already the world's most populous country, China will come to have one of the highest percentages of elderly citizens, but this will also bring opportunities. The "greying of China" can create new demand.

We believe this growing population of senior citizens should offer opportunities for products and services tailored to them.

Indeed, elderly consumers will spend more on health-related items such as dietary supplements, disease treatments and senior care. They will probably spend more on insurance and favour products for their ease of use and goods supporting health that are optimally priced. As a result of China's one-child policy, a major proportion of those becoming elderly will not be able to rely on their children for care, which has already created a strong demand for senior housing.

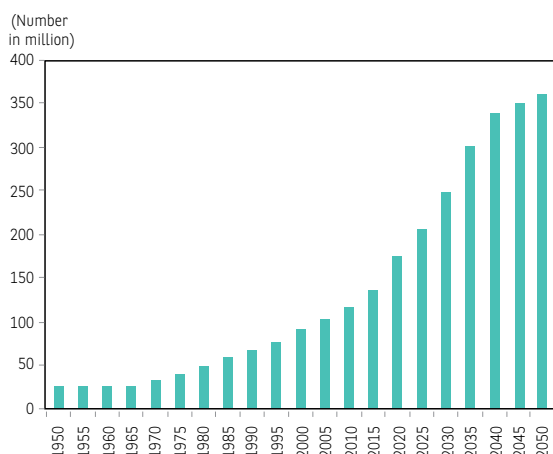
The government has even now accelerated care spending in the country. Increasingly, the emerging working middle class will also start to become more actively involved in the consumption pattern for this market, given that they represent the main source of income for this ageing population group.

CHINA'S ELDERLY

A SILVER ~200 MILLION OPPORTUNITY IS RISING

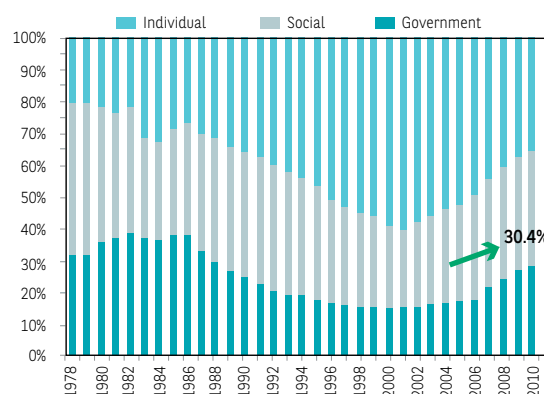


CHINA'S RETIRING POPULATION (AGE 65+) IS ENTERING THE ACCELERATING PHASE



Source: United Nations DESA/Population Division, World Population Prospects 2017, as of 31 August 2018

WITH A FAST GREYING POPULATION, CHINA'S GOVERNMENT ACCELERATES HEALTHCARE SPENDING



Source: Goldman Sachs, Wind, National Health and Family Planning Commission (NHFPC), Euromonitor, as of 2015

COMMON GROUND BETWEEN ALL CHINESE CONSUMERS

Despite these differences, Chinese consumers share similar aspects.

In today's China, there are more than 700 million internet users, most of them in urban areas and using 25 hours of internet per week. We have also seen a rapid rise in the use of smartphones for online shopping and payments over the past five years. Regardless of whether they are rich or poor, most Chinese consumers have a smartphone for communication and entertainment and shop on the internet. For any companies targeting any class of consumers, the internet is the key element they need to focus on. Online retail sales so far remain a small part of China's total e-commerce business, which is led by the business-to-business (B2B) sector, so there remains much potential growth. Beijing, Shanghai & Guangdong are top in internet penetration, and we are seeing rapid growth across the provinces.

Most Chinese consumers are urban citizens. China's urbanisation rate has already reached 60%, with about 800

million consumers living in cities. City-dwellers represent the bulk of the consumer market. Urban-based disposable income accounts for 80% of China's total disposable income. China is seeing a steady increase in average disposable incomes, albeit at a moderating but robust pace, and with a wide urban-rural gap. Per capita consumption in Tier-1 cities is visibly high but several Tier-2 & Tier-3 cities are also seeing high growth.

All Chinese consumers are subject to the same government policies and environmental regulations. In terms of environmental concern, data gathered from JD.com shows that consumers are demanding, and willing to pay extra, for sustainable products more than ever before. Sustainable or 'green' consumption has become a key focus in China, and that trend is only likely to grow as awareness of environmental protection issues becomes more deeply embedded in Chinese consumers' consciousness. For instance, millennials aged 26-35 accounted more than half (51.8%) of the total volume of 'green' purchases made on JD.com's platform in 2017, and accounted for 48.8% of all 'green' purchases.

REGARDLESS OF CLASSES, ALL CONSUMERS ALSO LIVE IN THESE SAME WAYS



**High Penetration
of Smartphones / Internet**

**800 million
consumers**

Digital Era, Information,
Media



**60% Urbanization
Rate And Rising**

**800 million
consumers**

High-Rise Apartments,
New Retail,
Express Delivery



**Under The Same Big
Government Policies**

**1.4 billion
consumers**

Greener Initiatives,
Environmental-Friendly,
Better Infrastructure

Source: BNPP AM, as of October 2018

BNP PARIBAS ASSET MANAGEMENT'S GREATER CHINA EQUITIES STRATEGY

We believe the following investment opportunities will remain available over the next few years as the sectors benefiting from these three structural trends are well positioned for sustainable growth:

- Technology and innovation
- Consumption upgrading
- Consolidation across various industries (both old and new industries)

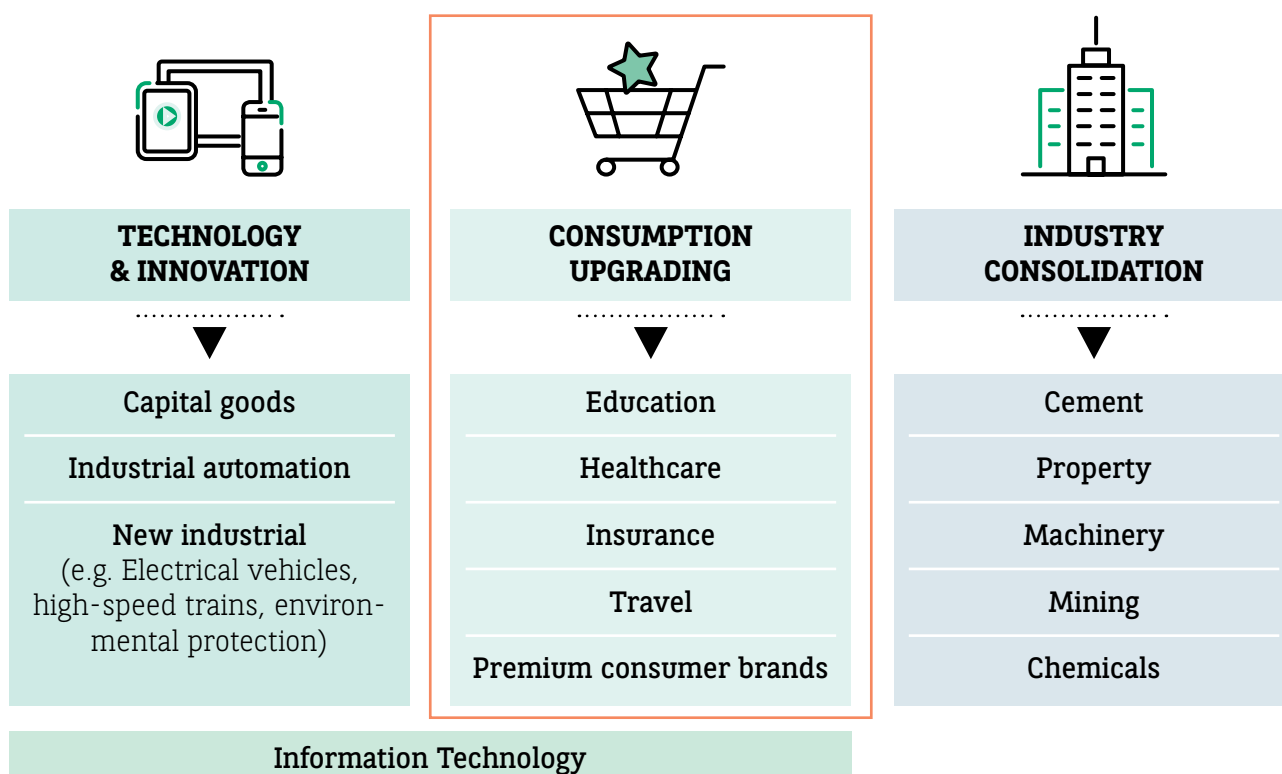
We expect consumption in China to become an increasingly important driver of growth, presenting significant opportunities to invest in the companies driving this trend. As explained earlier, China is embracing a new economic growth model that relies primarily on private consumption, services and innovation. As income growth continues to rise and the middle class becomes even larger, we expect consumers to increasingly seek out a larger proportion of premium products and the best available services. Chinese consumers are transitioning from "having" to "having more" and "having better". As a result, services that improve the quality of life and goods that provide superior quality or differentiation

are seeing more and more demand. For instance, growth of premium cosmetics sales has outpaced mass market growth. This also goes for consumer goods such as liquor, yoghurt or sport utility vehicles.

This gradual shift towards discretionary and experience-related consumption has been facilitated by a mushrooming e-commerce infrastructure. Better infrastructure means greater internet access and more smartphones, rapid expansion of e-payments and improving logistics networks. Internet penetration in China rose from 34% in 2010 to 54% in June 2017. Financial innovation also is key. It means that consumer credit has become more easily available to younger consumers who tend to be more eager to borrow to spend.

As to BNP Paribas Asset Management's Greater China Equities portfolio strategy, our investment team identified a number of opportunities in the area of consumption upgrading, mainly in premium brand consumer goods and services such as education, healthcare, insurance and travel. These consumer goods and services areas are underpinned by strong products from the information technology and internet sectors.

BNPP AM GREATER CHINA EQUITIES PORTFOLIO STRATEGY



CONCLUSION

China is large, diverse and multi-layered. There is no longer a single, one-size-fits-all definition of the Chinese consumer, but many distinct definitions. China's economy will undergo massive changes in the coming decade that will transform how people acquire goods and services. Companies and consumers are focusing increasingly on making and buying better quality products. China will shift from having a relatively young to a relatively old population. China will advance from being a manufacturing powerhouse to an active leader in digital innovation. Also, consumer attitudes look set to continue to evolve from a price-sensitive mindset.

We believe that being able to identify these consumer trends and the nuances in different consumer groups' behaviour will help us stay ahead and pick the right investment opportunities at the right time.

SPECIAL FOCUS

WILL CHINA'S TWO-CHILD POLICY SPARK A BABY BOOM?

The world's most populous country introduced its one-child policy in 1979. In 2011, the government announced the two-child policy, designed to help raise the limit to two children as the nation scrambled to rejuvenate a population of some 1.4 billion, a growing proportion of which is reaching or passing retirement age. This policy started to see a gradual relaxation process, before reaching full relaxation in 2015.

Starting from this date, the Chinese economy saw a slight pick-up in the number of Chinese couples having a second child. The second child percentage of total births has risen from less than 30% to over 60%. Is it possible this could lead to another baby boom?

China's moves to combat an ageing population by relaxing its decades-old curbs on family size seem to have hit an unexpected hitch as the birth rate has since remained relatively flat. Surveys have shown many one-child families harbour little desire to have more than one child.

The principal problem appears not so much to be about whether parents want to have a second child but rather about the fact that Chinese people are increasingly delaying the birth of their first child. This is the core problem for China's core working population of 300 million people. They live in the cities, most have a mortgage and they are supporting their children and, increasingly, their parents. For example, the skyrocketing cost of raising children in boom-time China has also given many prospective parents pause for thought. Overall, their living costs have become significantly heavier as they try to build their careers and achieve other goals. Most thus prefer to delay the birth of their first child until they reach a comfortable level of income.

In our view, the government's initiative to relax the second-child policy is a good one, as it should eventually help to support the overall birth rate at least at its current level rather than seeing it collapse over the medium term.

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