



Invesco Asian Consumer Demand Strategy

– investing in growing Asian consumption

Key drivers of Asian consumer demand

- **Positive demographics**
A fast growing, youthful middle class
- **Rising per capita income**
Driving spending
- **High savings/low debt**
Strengthening purchasing power
- **Growing demand for and supply of consumer credit**
Greater financial awareness and confidence
- **Cultural change in spending patterns and attitudes**
Trading up from necessities to discretionary goods

In this document we introduce the Asian Consumer Demand investment theme – a fast-growing and dynamic theme covering the Asia ex Japan region. We believe that by investing in quality, well priced stocks related to Asian Consumer Demand thematic, we can deliver strong sustainable returns for investors.

The Asian Consumer Demand theme – an introduction

The Asian Consumer Demand theme is a long-term, secular trend that will drive growth in the Asia ex Japan region and become a major influence on investment decisions over the next 20-30 years.

While the US consumer will continue to be a driver of global growth into the future, its influence is expected to lessen. Alongside the US consumer will be a large and increasingly wealthy Asian middle class, driving the demand not only for global products, but increasingly for goods and services produced within the Asia ex Japan region.

Right now, we're seeing:

- Strong Asian GDP growth despite the debt problems in many developed nations
- Asian growth driven more by internal demand and less reliant on export growth
- Geographic diversification – Asian (ex Japan) economies at different stages of development
- Growing and increasingly affluent Asian populations
- A growing culture of consumerism and a gradual move away from 'traditional' Asian values of thrift, large families, and conservative buying choices
- The ability of Asian brands to tap into the changing spending patterns of Asian consumers.

Going forward, we expect to see:

- A growing number of middle class and high net worth individuals
- Regional growth driven more by local demand and less reliance on exports
- Increasing opportunities for companies providing consumer demand-related products and services.

We believe it's increasingly a priority to invest in the rapidly growing consumer brands, products and services increasingly aimed at affluent Asian consumers – with reduced exposure to slowing western consumer demand.

The Asian Consumer Demand theme – dynamics and drivers

There are now more than 3.1 billion Asian consumers. The number of those who are middle class and more affluent is forecast to increase from 570m in 2010 to one billion by 2015.

The numbers are increasingly stacking up in favour of the Asian Consumer Demand theme:

3.1bn	The number of consumers in Asia ¹ representing 45% of the world's total population ²
4.8tn	The total US\$ consumer spending in Asia in 2010, the second largest in the world and 46% of the US consumer market ³
3.3m	The number of high-net-worth-individuals with at least US\$1 million in liquid financial assets, totaling US\$10.8 trillion ⁴ – a growth of 12.1% in wealth
60tn	The amount of wealth in US\$ in the Asia-Pacific region vs. US\$62 trillion in North America and US\$64 trillion in Europe ⁵
600m	The approximate number of middle class consumers in each of India and China by 2025 (India = 583 million ⁶ ; China = 612 million ⁷)

Source:

1. Asia = China, Hong Kong, India, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand
2. The State of World Population 2009, United Nations, 18 November 2009
3. Oxford Economic Model, UBS, July 2011
4. Capgemini and Merrill Lynch Wealth Management World Wealth Report 2011, June 2011
5. Global Wealth Report, Credit Suisse Research Institute, October 2010
6. The "Bird of Gold": The Rise of India's Consumer Market, McKinsey Global Institute, March 2007
7. From "Made in China" to "Sold in China": The rise of the Chinese urban consumer, McKinsey Global Institute, November 2006

Asian Consumer Demand - Did you know?

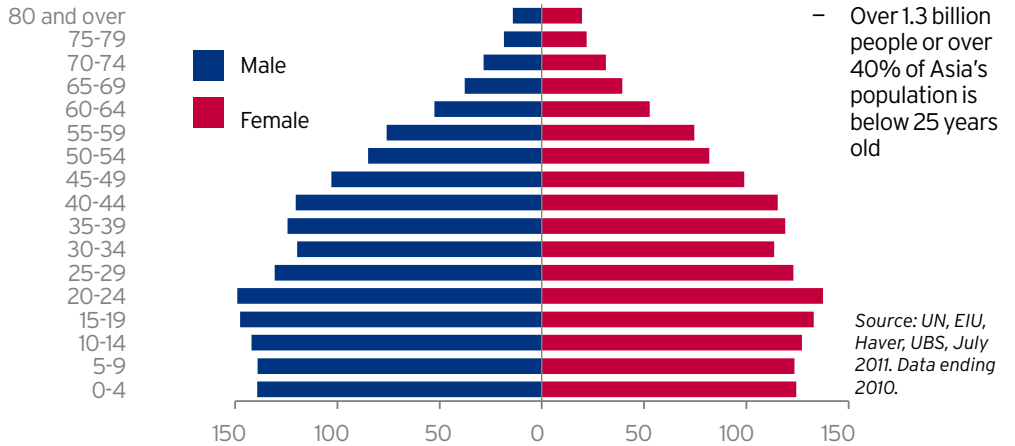
- The total number of billionaires in Asia in 2010 was 332, more than quadrupling in 10 years.
- Greater China consumers will account for 44% of global luxury sales by 2020.
- One in four billionaires in the world is now in Asia, up from 1 in 10 in 2005.
- The first Starbucks in China opened in Beijing in 1999; now there are more than 400 stores operating in 31 mainland cities.
- Online retail sales in China grew 95% in 2010.
- India's business jet fleet has climbed by nearly 50% in the past 36 months.
- India's luxury market will be worth US\$30bn by 2015, about 8-10% of the world market.
- By 2015, 9 million Indians will be consuming luxury goods.

Source: 'Mr & Mrs Asia - moving up the J-curve 2011', CLSA Asia Pacific.

Demographics favour consumer demand growth

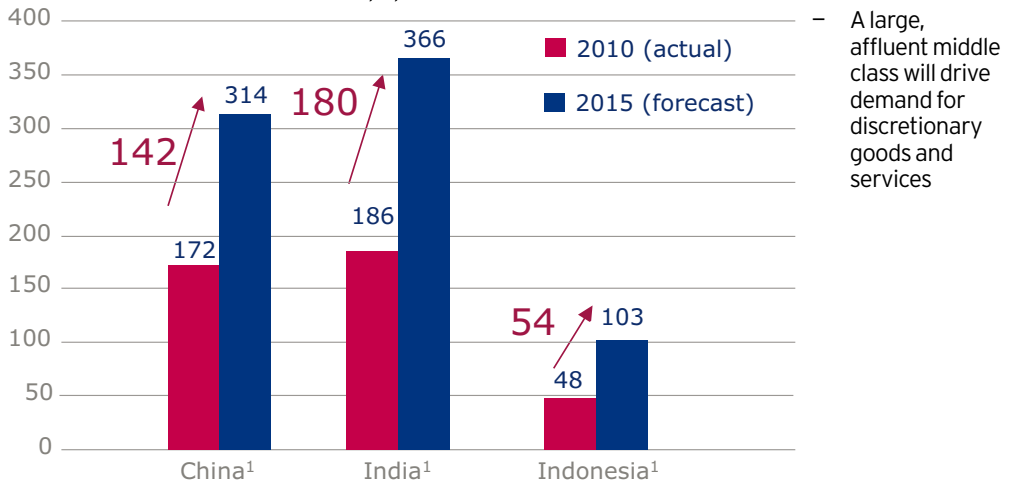
Demographics and population size are the underlying drivers of consumer demand. Large population size naturally lends itself to potential for higher spending. Young demographics will support the growth of consumer demand over the long term. As the young population leads to rising work-force participation, the natural demand to consume will increase. In Asia, the number of people working will rise, especially with large population countries like India and Indonesia, which combined are bigger than the current size of China.

Asia ex Japan population of around 3.1 billion people



Higher per capita incomes across the Asia ex Japan region are complemented by favourable demographics. This is especially the case in 'Chindonesia' (China, India, Indonesia), which alone will have a middle class population of nearly 800 million by 2015.

Middle-class and above-middle-class population in millions

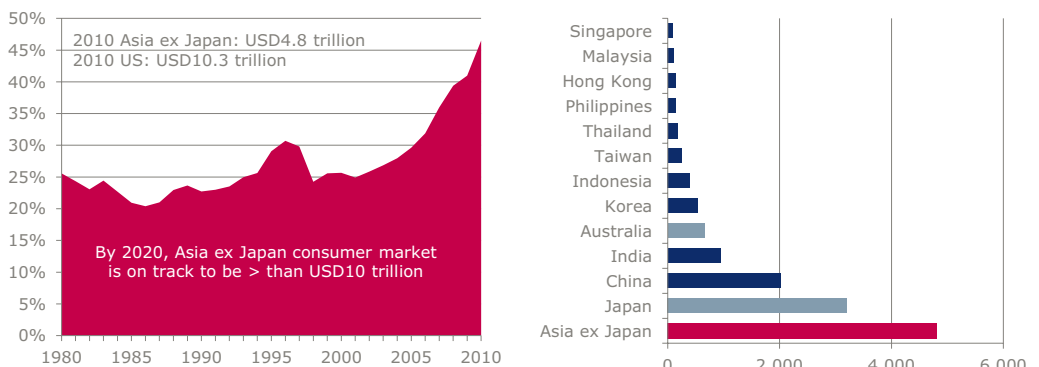


Note: 1 Middle-class households are those with annual income > US\$5,000

Source: Winning in Emerging-Market Cities, The Boston Consulting Group, September 2010

Asia ex Japan consumers are spending more

Total Asia ex Japan consumer spending is now around half that of the US and is set to grow strongly over the next decade. Asia ex Japan consumer spending now dwarfs Japanese consumer spending.

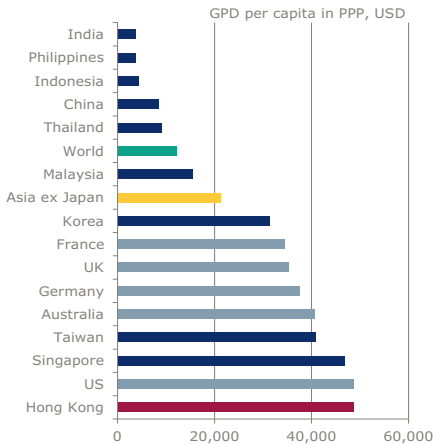


Source: Oxford Economic Model, UBS, July 2011. Data ending 2010.

Emerging Asia at an income inflection point

Regional Asia ex Japan per capita incomes are surging, with GDP per capita purchasing power parity (PPP) rising by more than two-thirds in just the last 10 years. It is now slightly below France, the UK and Germany.

Emerging Asia is now at an inflection point of rapid income growth, with diversity along the income curve offering a wide range of investment opportunities at different stages of economic development.



Source: Datastream, EIU, UBS estimates.

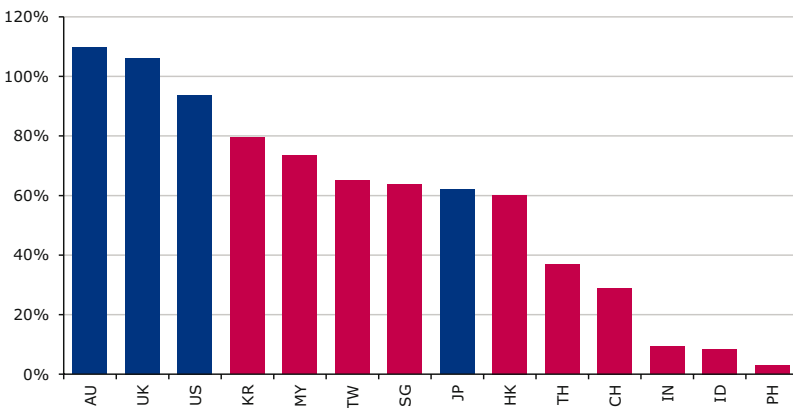


Source: IMF, World Bank, Morgan Stanley Research, as of October 2010.

The untapped potential of credit

With robust balance sheets, Asian consumers are well positioned with current savings and their ability to increase their use of consumer finance. With disciplined use of consumer credit, Asian consumers will have new opportunities to expand and expedite their spending.

Household debt as a % of GDP, 2010



Source: CEIC, Haver, UBS estimates (data as at August 2011).

- Consumer balance sheets are strong. Consumers have been living within their means and are not over extended, unlike many Western economies
- Consumer credit penetration is low, but will grow steadily with a changing youth and consumer-oriented culture

Local brands have brand power in Asia

Most of the major global brands earn less than 30% of their total revenues by doing business in the Asia ex Japan region. Examples include Nestlé, Colgate-Palmolive, Coca-Cola, Heineken, and even the more popular luxury brands like Louis Vuitton (LVMH) and Hermes.

By contrast, Asia's home-grown brands have firm, and increasing, market shares in the region. These brands are luxury, lifestyle and consumer staples and their business growth is being fuelled by the surge in Asian consumer demand. Examples that are not so well known globally but which are growing strongly include:

- Tencent (Chinese internet/social networking);
- Air Asia (Malaysian airline);
- BYD (Chinese car maker); and
- Indofood (Indonesian food and snack manufacturer).

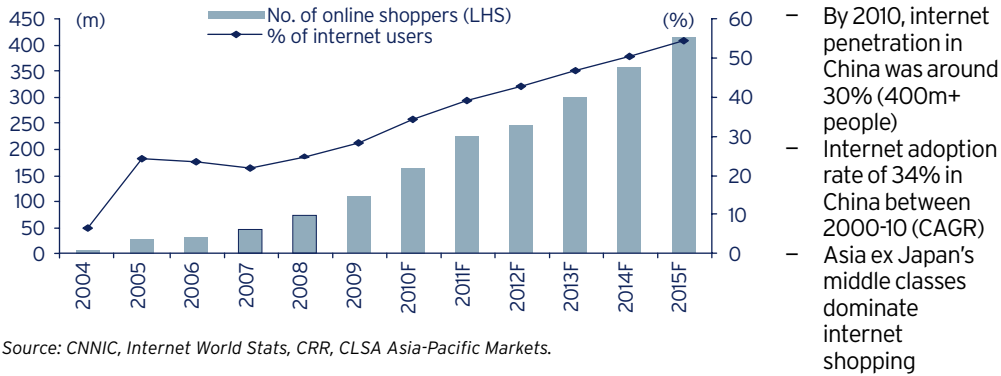
Some home-grown Asian companies and brands have already become global names, e.g. Hyundai (Korean car maker); Samsung (Korean electronics firm); and Shangri-La (Hong Kong luxury hotel chain).

Importantly, there is strong loyalty to local Asian brands both within individual Asian countries and across the Asian region. This is being driven by a greater confidence in the economic resilience of Asia, notably as China's economy continues to grow and consolidate its position as the region's major economic power and the world's second largest economy.



Emerging Asia goes online

Not only are the next generation of Asia's consumers well informed, through media, they are internet-savvy and are not afraid to shop online.



Summary

Over the next decade and beyond we believe the Asia ex Japan region will shift from one that is primarily led by secular events in the global economy to one that is primarily driven by consumption, investment and government policy at the domestic level.

The Asian Consumer Demand theme is multi-decade and is expected to continue to grow strongly. The theme is underpinned by many factors - including favourable demographics, higher incomes, a larger middle class, credit growth, internet and media access, and importantly, changing cultural attitudes such as a greater desire and confidence to spend discretionary income on consumer goods and services.

Already, the 'home-grown' Asian consumer brands are benefiting strongly from the surge in Asian consumerism relative to the global brands, which rely heavily on the lower-growth cycles of developed economic regions such as the US and Europe.

It is our firm view that the Asian Consumer Demand theme will continue to provide long term return and diversification opportunities for investors, through exposure to an investment theme underpinned by a billion middle class consumers in what is the world's premier growth region.

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