New China:
Impact of the Chinese Consumer

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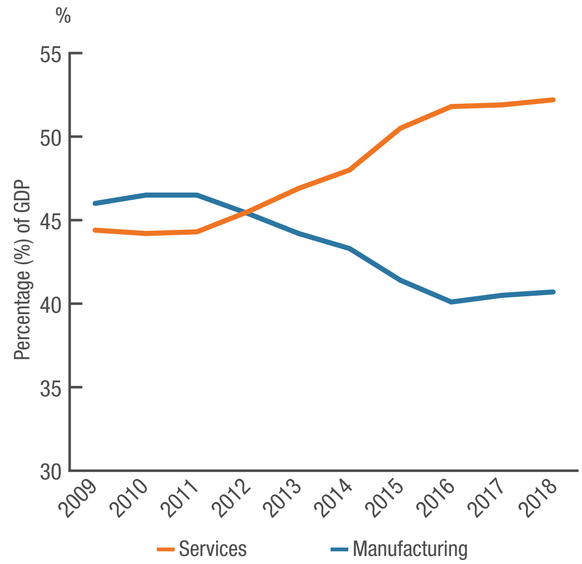
The transition of the Chinese economy from a manufacturing-led growth model to a consumer services-led growth model is widely expected to continue to create secular growth investing opportunities. However, the transition, thus far, has not been easy or straightforward. China's growth is expected to slow as government reforms are being made to shift the economy towards consumer spending.

The Two Chinas

China's economy is moving in two different directions. "Old China", which is dominated by state-owned and heavy industries such as manufacturing and construction, is slowing down. "New China", on the other hand, with its innovative companies and focus on middle class consumption, has experienced resilient and even robust growth, in spite of slower growth in gross domestic product (GDP) and short term stock market volatility.

Until 2012, China's economic growth was fueled by Old China, represented predominantly by the manufacturing industry. Today, the manufacturing industry has contracted to 40.7% of the country's GDP.[1] Meanwhile, New China, as represented by the services industry, has been rising steadily. In 2018, the services industry accounted for more than half of China's GDP, rising to 52.2%, up from 44.4% a decade ago (chart 1).

Chart 1: The Services Industry Now Accounts for a Majority of China's GDP



Source: National Bureau of Statistics.

New China vs. Old China*

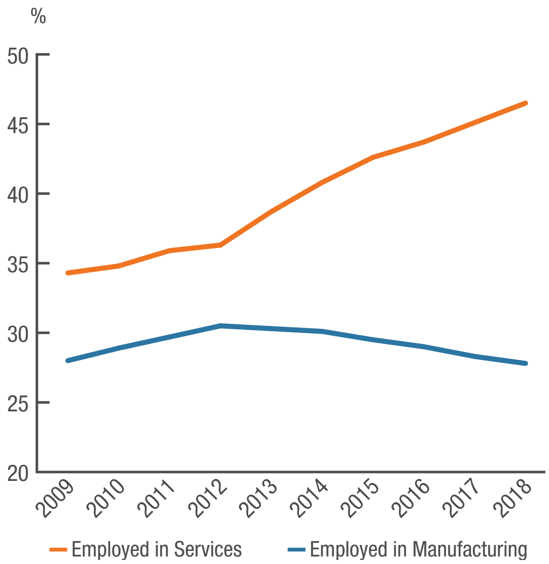
NEW CHINA	OLD CHINA
Internet/E-Commerce	Heavy Machinery
Clean Energy	Energy (Coal)
Beauty/Personal Care	Textiles and Apparel
Healthcare	Steel/ Metals
Education	Chemical Materials
Travel & Tourism	Railways, Shipping and other Transportation
Financial Services/Insurance	Rubber and Plastics

*A representative sample of industries, not a full list.

[1] National Bureau of Statistics.

The shift from manufacturing to services is an indication of China's progress in transitioning towards greater domestic consumption. As Old China stalls, New China is becoming an important engine of economic growth, especially as it pertains to job creation and middle class expansion. Employment in the services sector has been steading increasing and now accounts for 46% of total employment (359 million people), the largest share of the country's 776 million workers (chart 2).

Chart 2: The Services Workforce is Growing at a Fast Pace



Source: National Bureau of Statistics.

New China's Growth Engine — The Consumer

New China is driven by an expanding and wealthier middle class population. Today, around 60% of Chinese households are considered to be middle class.[2] By 2025, 67% of Chinese households is expected to fall into this middle class category (chart 3). In absolute terms, the size of the Chinese middle class is even more impressive. By 2025, the middle class in China is expected to reach approximately 669 million people.[3] To put that figure into perspective, the Chinese middle class will be more than twice the size of the entire US population.

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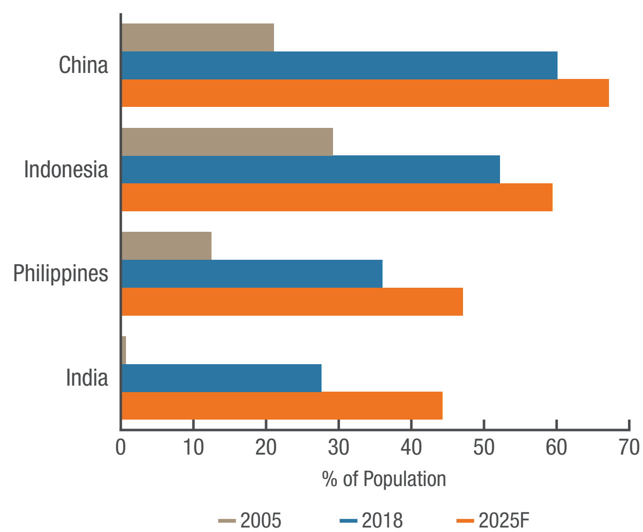
Chart 3: China's Large and Growing Middle Class Population



Source: HSBC Global Research, "Future Consumer", April 2019. HSBC uses the cut-off for middle class as US$11 person per day in 2011 PPP, or US$14,300 for an average family of four members. F=forecast. **Forecast numbers are projections and not guarantees.**

[2] HSBC Global Research Estimates, "Future Consumer," April 2019.

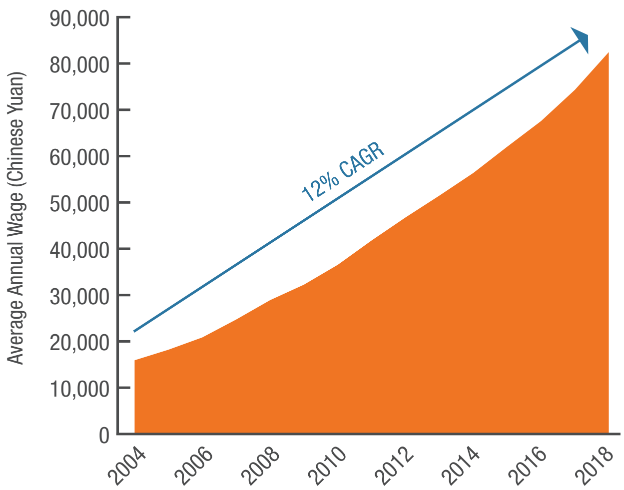
[3] HSBC Global Research Estimates and Mirae Asset. Based on China's working-age population in 2017.

Consumer spending, underpinned by income growth, remains steady and strong even if the Chinese economy is not growing as fast as it once was.

Supporting the growth of the middle class is rising income. Income is one of the most important determinants of middle class consumers' spending decisions. In China, the average annual wage of an urban household grew at a compounded annual growth rate of 12% from 2004 to 2018 (chart 4). This upward wage trend is expected to continue, albeit at a slower pace, as the economy shifts from low-wage manufacturing industries to better-paying service and high-tech industries. And as wealth increases, consumption is likely to follow.

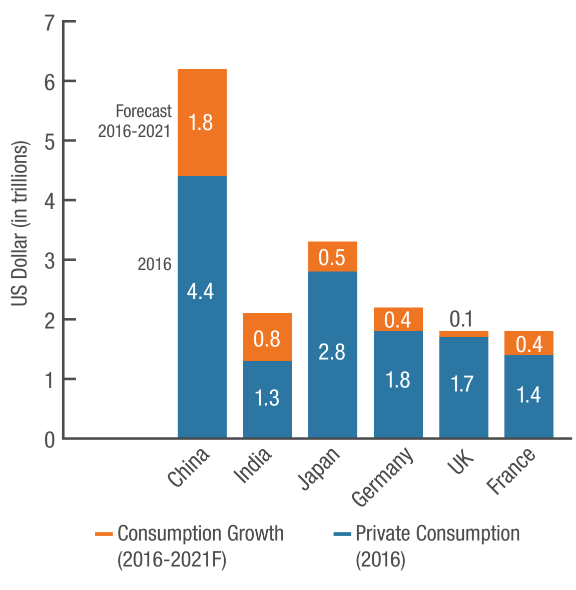
Consumer spending, underpinned by income growth, remains steady and strong even if the Chinese economy is not growing as fast as it once was. According to global research firm Boston Consulting Group (BCG), even if China's economy declines to a conservative projection of 5.5%, its consumer market would still expand by an additional $1.8 trillion over the next five years to become a $6.1 trillion market by 2021 (chart 5).

Chart 4: Chinese Household Wages Continue to Rise



Source: National Bureau of Statistics, based on average wages of urban households.

Chart 5: China's Consumer Market to Reach $6.1 Trillion by 2021



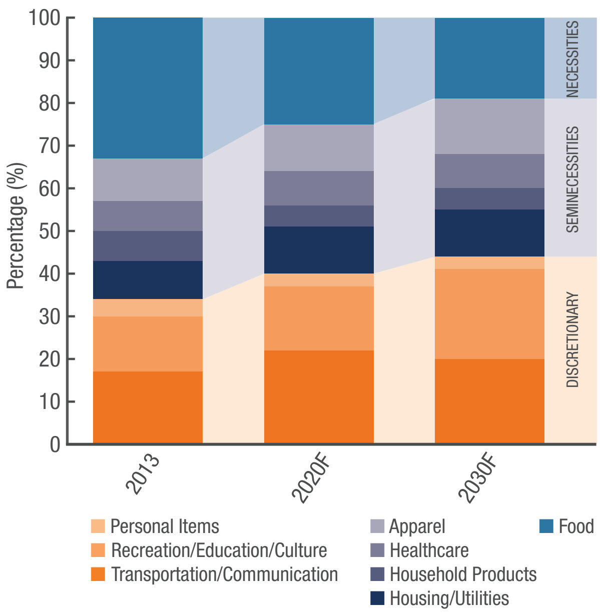
Source: Economist Intelligence Unit; BCG analysis. Assumes annual GDP growth of 5.5% for China. F=forecast. **Forecast numbers are projections and not guarantees.**

Investing for Success In New China

The Chinese consumer is evolving and their spending patterns are fueling a consumption boom in certain sectors and industries. Many of today's consumers in China have moved their purchasing beyond daily necessities such as food and clothing and are allocating more of their spending to discretionary items such as technology, education, recreation and travel (chart 6).

Consumers in China tend to be younger, with spenders under the age of 35 accounting for 65% of consumption growth.[4] Unlike previous generations, the younger Chinese grew up in a period of rapid improvements to their quality of life, and they consume at a higher rate and with higher standards.[5] Young Chinese consumers are also more tech-savvy and prefer to spend online, with a majority of their buying decision influenced by digital content. These young spenders will play an increasingly important role in shaping China's evolving consumer market.

Chart 6: Chinese Households are Allocating More of Their Spending to Discretionary Categories

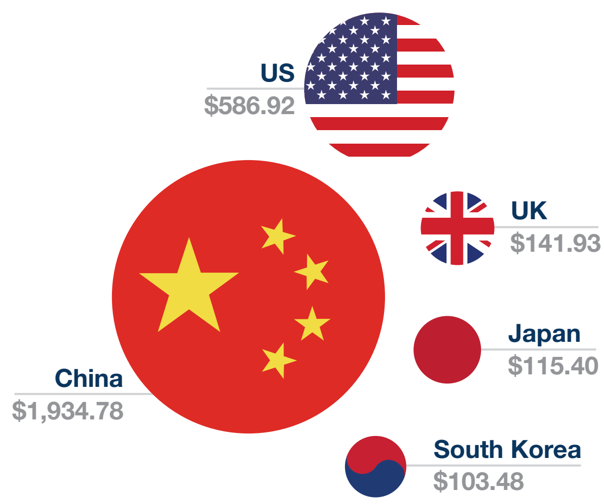


Source: McKinsey Global Institute. Figures may not sume to 100% due to rounding. F=forecast. **Forecast numbers are projections and not guarantees.**

E-Commerce

E-commerce is a prime example of an industry that has embraced and benefitted from New China. BCG refers to the growth in e-commerce as one of the most revolutionary changes in the Chinese consumer economy. China is now the world's largest e-commerce market and accounts for 55% of the world's retail e-commerce sales (chart 7). China will likely cement its number-one position in the near future as retail e-commerce sales are projected to soar to $4.1 trillion by 2023, more than four times the projected sales of $970 billion for the US (chart 8).

Chart 7: Top 5 Countries Ranked by Retail E-Commerce Sales (in billions)



Source: eMarketer, May 2019. Excludes Hong Kong. Ranking includes products or services ordered using the internet via any device, regardless of the method of payment or fulfillment; excludes travel and event tickets.

[4] Boston Consulting Group, "The New China Playbook", January 2016.
[5] Bain & Company, June 2018.

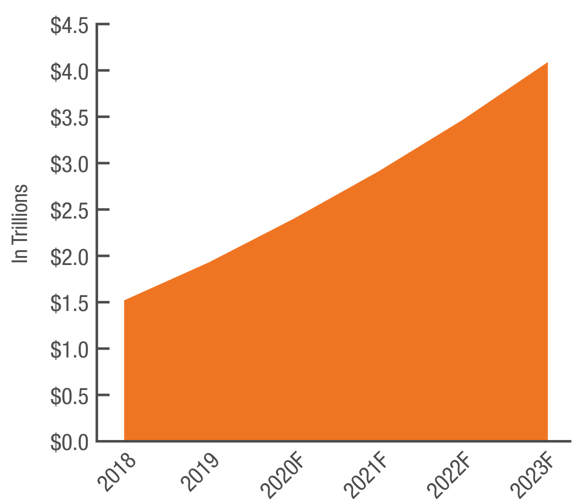
The top Chinese e-commerce companies who dominate in e-commerce have online platforms that are content-rich, with user-friendly websites and mobile applications, and a fast, reliable delivery service.

The e-commerce boom in China is creating historic opportunities to invest in local internet companies. However, e-commerce companies will need to do more than just provide customers a platform to shop if they want to win in New China. In China, a majority of shopping is done not only online but also on a mobile device. In 2019, more than 525 million Chinese consumers are expected to make a mobile payment, three times more than India, the US, the UK and Germany combined (chart 9).

The top Chinese e-commerce companies who dominate this space have an online platform that is content-rich, with user-friendly websites and mobile applications, and a fast, reliable delivery service. Strategic partnerships can also provide a competitive advantage. One of China's largest e-commerce companies has been able to respond to customers' mobile shopping preference and boost their mobile orders by partnering with one of the country's most popular instant messaging applications to access and grow their base of active users.

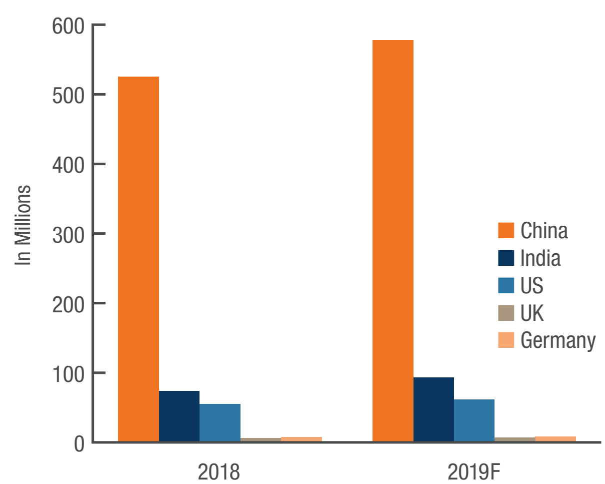
Top companies in this space tend to have first leader advantage in business-to-consumer strategy and are in the forefront of innovation in mobile payment solution. In a market where there is a proliferation of counterfeit goods, the most successful companies have been able to earn and keep the trust of their customers by offering high-quality, authentic products at competitive prices. These leading e-commerce companies are focused on cultivating brand loyalty through customer satisfaction, building large scale fulfillment centers and investing in a comprehensive and dependable logistics network with their merchants and delivery partners. As a result, successful Chinese e-commerce companies in New China have garnered investor confidence by increasing their base of active buyers, growing mobile revenue and improving their monetization rates.

Chart 8: China's E-Commerce Sales Soars



Source: eMarketer, May 2019. Excludes Hong Kong. Data includes products or services ordered using the internet via any device, regardless of the method of payment or fulfillment; excludes travel and event tickets. F=forecast. **Forecast numbers are projections and not guarantees.**

Chart 9: Chinese Users Dominate the Mobile Payment Landscape



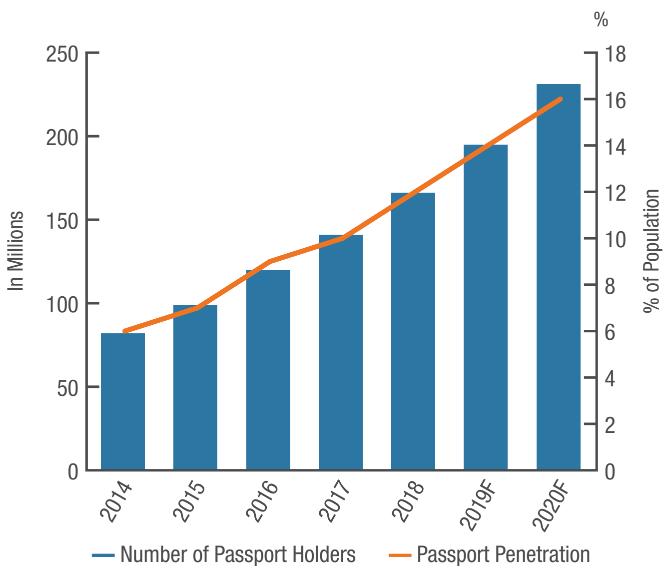
Source: eMarketer, October 2018. F=forecast. **Forecast numbers are projections and not guarantees.**

Travel & Tourism

Another dynamic industry in New China is travel and tourism. As the Chinese consumer becomes wealthier, a top aspiration is to experience more leisure travel, boosting demand for a range of service-based businesses.

Leisure travel is expected to experience healthy growth and become a regular part of life for many Chinese households as affordability, holiday leave, better transportation and the desire to travel increase. In the last five years, the number of Chinese passport holders has more than doubled from 87 million (6% of the population) to around 195 million (14% of the population) (chart 10). The market for Chinese tourists is still in the early stages, with significant growth potential as travel becomes increasingly popular.

Chart 10: Passport Holders in China Steadily Grows



Source: Morgan Stanley Research 2019. F=forecast. **Forecast numbers are projections and not guarantees.**

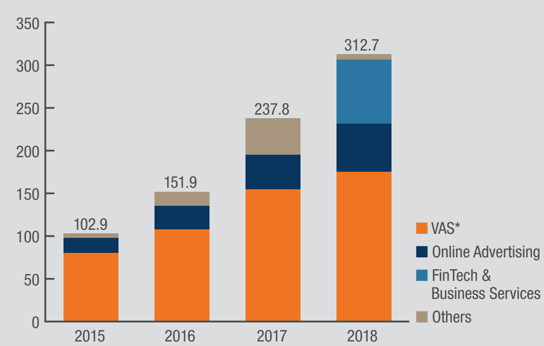
Winning in New China

New China is presenting investors with incredible investment opportunities. Here are examples of companies that have benefited from consumer spending in the rising service-based industries.

TENCENT HOLDINGS

Tencent owns China's largest social network and online games platform. They are also a market leader in digital content, mobile payments and cloud services. Value-added services (social networks and online games) continue to be the main driver of growth for Tencent, but the company is also experiencing strong growth in other businesses such as mobile payments and FinTech.

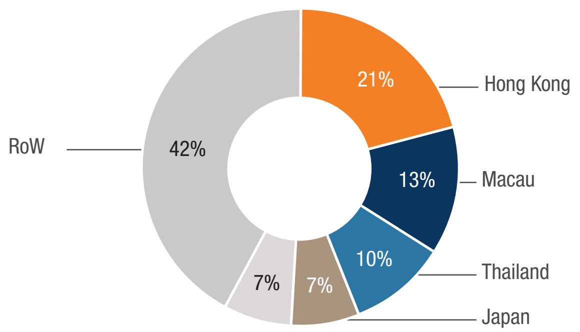
Diversified Revenue Streams (in RMB Billions)



Source: Company data. *VAS= Value-Added Services is a combination of social networks and online games.

Mirae Asset Global Investments may or may not hold positions in the companies discussed and this is not a recommendation to buy, hold or sell these companies.

Chart 11: Popular Destinations for Chinese Tourists



Source: WTTC 2019 Annual Research, Oxford Economics, national sources and UNWTO. Data shown is the average over the 2015-2017 period. RoW=Rest of the World.

Chinese tourists tend to travel domestically, with Hong Kong and Macau being the most popular travel destinations (chart 11). According to the World Travel & Tourism Council (WTTC), China is now the leading domestic tourism market in the world. The number of domestic trips in China increased from 870 million in 2003 to a staggering 5.5 billion in 2018.[6] This has had a tremendous impact on the Chinese economy with domestic tourism spending generating 87% of direct travel and tourism GDP.[7] Strong domestic tourism spending is forecast to continue its upward trajectory and reach $1.3 trillion by 2025, up from $777 billion in 2018 (chart 12).

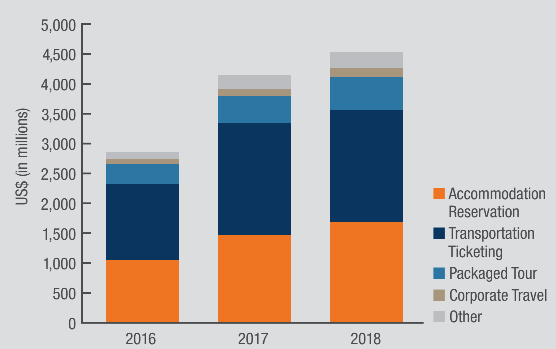
The fast-growing leisure travel market in New China affects many business segments, from restaurants to airlines to hotels, and provides numerous opportunities to invest in the travel theme. One route is through online travel agencies. The top online travel service provider in China has been able to maintain its market leader status with its early-mover advantage, largest global hotel network and one-stop distribution platform offering air tickets, packaged tours, car rental and other travel-related services.

[6] National Bureau of Statistics.
[7] WTTC, Economic Impact 2018 China.

CTRIP.COM INTERNATIONAL

Ctrip is China's largest online travel agency (OTA) offering accommodation reservations, transportation ticketing, package tours, and other travel-related services to business and leisure travelers. Ctrip's dominant position in the OTA market continues to drive revenue growth, growing from $2.9 billion in 2016 to $4.5 billion in 2018.

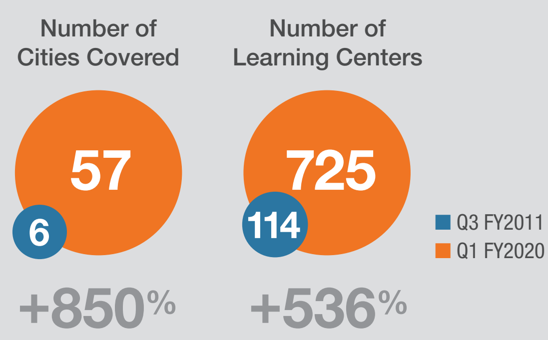
Revenues by Segment



Source: Company data.

TAL EDUCATION

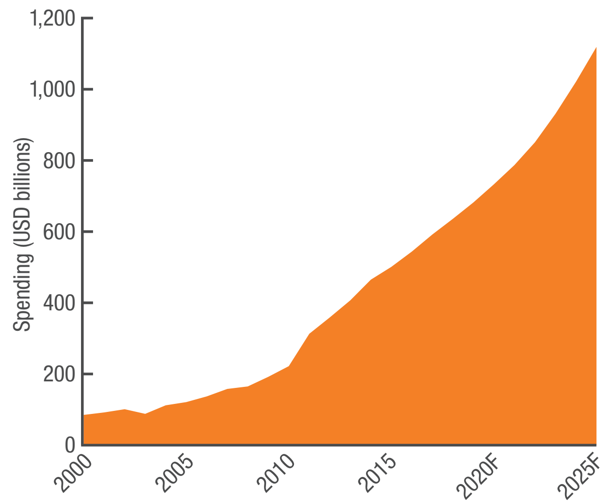
TAL Education is a leading provider of after school tutoring services in China. TAL, which stands for "Tomorrow Advancing Life", offers comprehensive tutoring to students from K-12 via small classes, personalized premium services, and online courses. The company has 725 learning centers covering 57 cities in China.*



Source: Company data. *1st quarter of fiscal year 2020 ended May 31, 2019.

Hotel and hospitality is another investable service-based industry benefiting from Chinese tourism. One emerging markets company is offering Chinese tourists a unique lifestyle experience in their luxury hotels and restaurants backed by a high standard of service. They have achieved economies of scale through strategic acquisitions of select properties in China and by forming joint ventures with business partners who have local knowledge and expertise.

Chart 12: The Upward Trajectory of Domestic Tourism Spending in China is Expected to Continue



Source: WTTC, based on real prices. F=forecast. **Forecast numbers are projections and not guarantees.**

Investing in New China

As China continues to rebalance its economy from manufacturing to services and consumption, from Old China to New China, service-based industries will increasingly drive and potentially become the primary source of economic growth. Although the path may be bumpy at times, Mirae Asset believes this transition will continue to evolve into new investment opportunities.

Mirae Asset's proprietary research indicates that New China represents a multi-decade investment theme. Moreover, we believe that the best way to access opportunities in the New China is through active management strategies rooted in fundamental, bottom-up research. Our high-conviction investment approach can help investors tap into the long-term growth opportunities of the New China.

At Mirae Asset, we believe growing Chinese consumption continues to present investment opportunities even though investors must now be more selective. Economic growth is no longer what it had once been, the rising tide lifting all industries. To an active manager, this change means only that the need for identifying the best companies has become even greater, since not all services companies in New China will succeed. Through active management, however, we believe that an investor can identify the companies best positioned—whether through brand strength, management acumen or technical innovation—to win in New China.

To learn more about Mirae Asset's range of actively managed emerging market funds, please visit us at investments.miraeasset.us.

Please note: There can be no guarantee that any strategy (risk management or otherwise) will be successful. All investing involves risk, including potential loss of principal.

About Mirae Asset Global Investments

Mirae Asset Global Investments manages investment strategies for clients across the globe. With over $136 billion in total assets under management, and over 700 employees, including 185 dedicated investment professionals,[1] Mirae Asset offers a breadth of emerging markets expertise. Mirae Asset's offices are located in Australia, Brazil, Canada, China, Colombia, Hong Kong, India, Korea, the U.K., the United States and Vietnam.

We focus on actively managed emerging market-focused portfolios through a bottom-up investment process rooted in on-the-ground research. Mirae Asset Global Investments is recognized as one of the world's largest emerging market equity investment managers[2] and has one of the largest teams of investment professionals dedicated to emerging markets. Our worldwide team of portfolio managers, analysts and strategists maintains proximity to the investment opportunities that we research, allowing a deep understanding of companies and the cultures in which they operate.

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[1]As of June 30, 2019.
[2]Investments and Pensions Europe, 2018.

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Definitions and Important Information

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Compound Annual Growth Rate (CAGR) is the mean annual growth rate of an investment over a specified period of time longer than one year.

Financial Technology (FinTech) describes a business that aims at providing financial services by making use of software and modern technology.

Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

Purchasing Power Parity (PPP) is a theoretical exchange rate that allows you to buy the same amount of goods and services in every country.

Past performance is no guarantee of future results.

Investment Risk — There can be no guarantee that any investment strategy (risk management or otherwise) will be successful. All investing involves risk, including the potential of loss of principal. **Emerging Markets Risk —** The risks of foreign investments are typically greater in less developed countries, which are sometimes referred to as emerging markets. For example, legal, political and economic structures in these countries may be changing rapidly, which can cause instability and greater risk of loss. These countries are also more likely to experience higher levels of inflation, deflation or currency devaluation, which could hurt their economies and securities markets. For these and other reasons, investments in emerging markets are often considered speculative. Similarly, investors are also subject to foreign securities risks including, but not limited to, the fact that foreign investments may be subject to different and in some circumstances less stringent regulatory and disclosure standards than US investments.

An investor should consider the Fund's investment objectives, risks, charges and expenses carefully before investing. This and other important information about the investment company can be found in the Fund's prospectus. To obtain a prospectus, please contact your financial advisor or call (888) 335-3417. Please read the prospectus carefully before investing.

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