

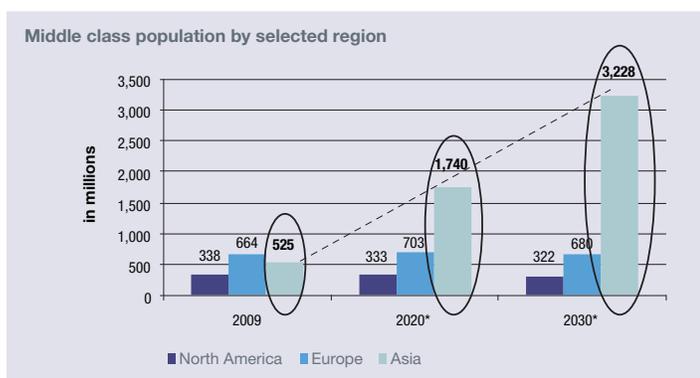
THEME THESIS: The emerging market consumer has truly started to emerge. Consumer spending in emerging market economies is likely to continue to accelerate in the decades ahead, led by growth in Asia.

RATIONALE

The political, economic and technological transformation of a post-Cold War world gave rise to a **global economy with billions of new consumers, producers and savers.** Manufacturing industries moved from advanced economies to the developing world, helping to create over 525 million jobs worldwide since 2000.¹

The combination of **urbanization and rising employment in emerging market economies has led to rising standards of living.** In East and Southeast Asia alone, 350 million workers have risen above the poverty level (income less than \$2 per day) since 2000.²

The acceleration of consumer spending in emerging market economies is likely to continue for decades, led by growth in Asia. It is estimated that by 2020 Asia will be home to more than half of the world's middle-class population, and by 2030 Asia's middle-class population is projected to exceed 3.2 billion.³



Source: Kharas, Homri, "The Emerging Middle Class in Developing Countries," OECD Development Centre Working Paper No. 285, OECD 2010. *2020 and 2030 projections

Consumer spending on goods and services in emerging economies does not typically exhibit a linear pattern. A key moment for consumer products occurs when a majority of a country's population can afford the good or service. At that moment, consumption of those products rapidly accelerates.⁴

Rising national incomes are associated with increasing levels of discretionary consumer spending

Current GDP/Capita	< \$2,500	\$2,500-4,999	\$5,000-7,499	\$7,500-9,999	\$10,000-14,999	\$15,000-19,999
Selected countries	Kenya Myanmar	India Nigeria Vietnam	Indonesia Philippines Sri Lanka	China Thailand	Colombia Peru Brazil	Chile Turkey Mexico
Total world population	912 million	1.9 billion	540 million	1.5 billion	533 million	454 million
Representative consumer goods/services	Color TVs, refrigerators, washing machines		Air conditioners, microwave ovens, mobile phones		Automobiles, cosmetics, dishwashers, game consoles, tourism	

Source: International Monetary Fund, World Economic Outlook Database, April 2014; Estimates as of 2013 GDP Per Capita in Purchasing Power Parity (PPP)

China is already the world's largest market for automobiles, with sales having surpassed both the United States in 2009 and Europe in 2010.⁵ With China's per capita gross domestic product (GDP) set to rise over \$10,000, automobile sales in China should continue to accelerate and may exceed those in the United States and Europe combined in the decade ahead.

With the potential for billions more to rise out of poverty to join the middle class in the decade ahead, **consumer spending in emerging economies will likely become increasingly more discretionary toward:**

- Personal and household goods and services
- Quality housing
- Educational opportunities for children
- A greater focus on environmental issues such as addressing air and water pollution and food quality concerns

POTENTIAL BENEFICIARIES

- Multinational corporations domiciled in developed economies that provide goods, services, technology and infrastructure consistent with the consumption patterns in emerging economies as income levels rise
- Local affiliates of multinational corporations that trade on local exchanges
- Locally based providers of consumer goods and services in emerging market economies

POTENTIAL RISKS TO OUTLOOK

- An overall global economic slowdown
- A rise in protectionism that slows down or reverses growth in global trade
- A regional or global conflict or pandemic that inhibits development of emerging market economies
- Policies in individual countries that hamper economic development and growth

POTENTIAL INVESTMENTS FOR CONSIDERATION

- Global and local consumer product and service companies at various stages of a country’s economic development and income thresholds (basic goods, discretionary household and personal goods, services, luxury goods)

SOURCES

1. “Global Employment Trends 2014: Risk of a Jobless Recovery,” International Labour Organization, International Labour Office, Geneva, 2014.
2. Ibid.
3. Kharas, Homri, “The Emerging Middle Class in Developing Countries,” OECD Development Centre Working Paper No. 285, OECD, 2010.
4. Gavekal Dragonomics, Gavekal Ltd.
5. Bloomberg.



DISCLOSURES

NOT A DEPOSIT	NOT FDIC INSURED	MAY LOSE VALUE	NOT BANK GUARANTEED
NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY			

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