

## MEASURING THE BUSINESS OF LUXURY LIVING

May 2012

### Summary

- Global luxury sales hit EUR 173 billion in 2010, a 13% increase year over year, according to Bain & Company's 10th Edition of its Luxury Goods Worldwide Market Study. Despite the global economic slowdown, European debt crisis, and the March 2011 earthquake in Japan, Bain expects global luxury sales to grow another 10% to reach EUR 191 billion in 2011. Annual growth of 6% to 7% is expected in 2012-2014 [1].
- Economic growth worldwide, rising income and wealth levels, and continuous global urbanization are the key factors for the development of the global luxury market. Affluent Japanese consumers were a driving force in the proliferation of luxury retail network worldwide in the 1980s and 1990s [2].
- As income growth picked up speed and wealth amassed in the 2000s, China became the new engine for global luxury sales. According to Bain's report, luxury sales in China have been growing 20% to 35% annually in euros since 2007, even in the stressed years of 2008 to 2009. In 2010, luxury sales in China grew by 35% and are estimated to grow another 35% in 2011[1].
- Purchases abroad account for more Chinese luxury consumption than domestic purchases. Chinese shoppers' soaring demand for luxury goods and the strong yuan were some of the largest factors in the prosperity of luxury sales at travel destinations and duty-free stores.
  - Chinese tourists accounted for 67% of total tourist arrivals in Hong Kong in 2011. Bolstered by the strong yuan, the per capita spending of overnight visitors from mainland China grew significantly. Jewelry retailers in Hong Kong experienced strong growth momentum after the financial crisis.
  - Hong Kong, the U.S., and mainland China are the top three markets for Swiss watches, absorbing 21.2%, 10.3%, and 8.5%, respectively, of the total exports of Swiss watches in 2011. Hong Kong and mainland China, especially, had tremendous growth in 2010 and 2011.
  - Newly affluent Chinese have become active bidders and buyers at global fine art auctions, making China an increasingly important revenue source for Sotheby's.
  - Macau's gaming business has grown substantially since 2005, driven by the general prosperity of Asia. In 2011, visitors from mainland China alone accounted for 57.7% of total tourist arrivals in Macau.
  - According to Global Blue, Chinese travelers became the world's top purchasers of duty-free goods for the first time in 2010, surpassing Russian, Japanese, American, and Indonesian consumers [28, 29].

#### Contributor:

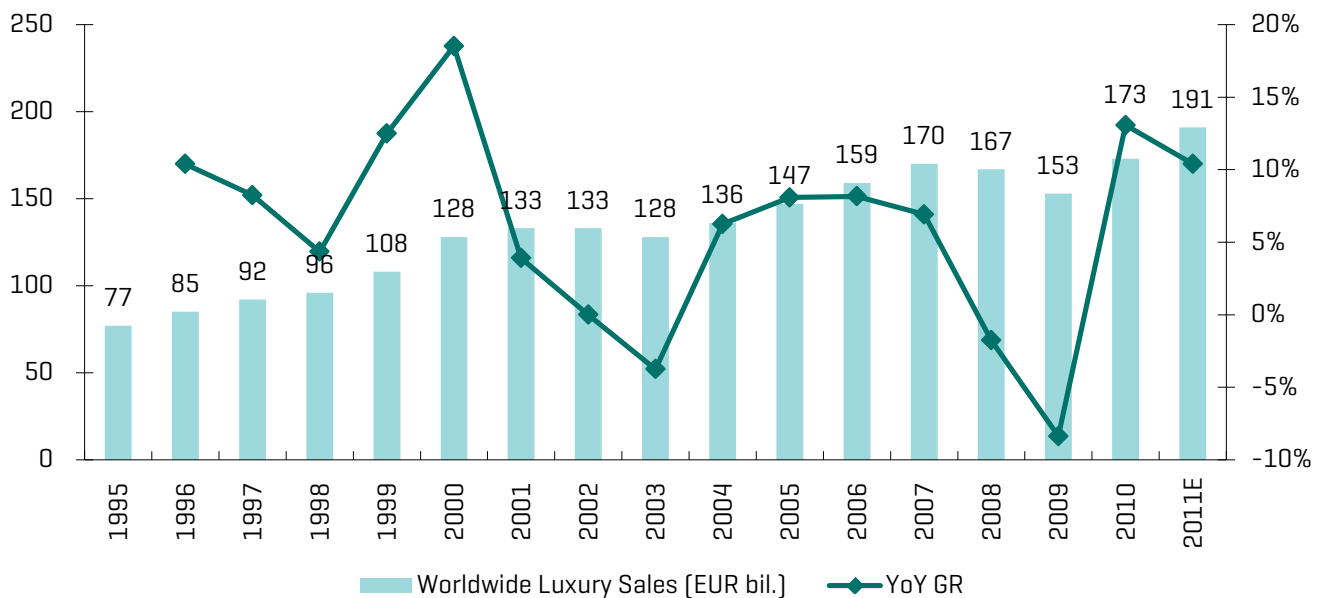
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- The S&P Global Luxury Index showed higher annual returns after the financial crisis of 2008 and exhibited higher profit margins since its inception, compared to the S&P Developed BMI Consumer Discretionary Index. Many of the index constituents experienced strong growth in Asia-Pacific and other emerging markets in 2009 to 2011.

## *The Development of the Global Luxury Industry: 1990s to 2010s*

According to Bain, the global luxury goods market has gone through five periods of development since 1995 [4, 5].

**Exhibit 1: Global Luxury Sales**



Source: Bain & Company, Luxury Goods Worldwide Market Study. Bain's analysis only covers the spending on luxury apparel, accessories, leather goods, shoes, jewelry, watches, perfume, and cosmetics. It excludes luxury service, hotel, restaurant, alcohol, luxury car, and yachts/private jets. Growth rates are in euros.

**Booming Business & Democratization (1995-2000):** Global spending on luxury goods increased with a compound annual growth rate (CAGR) of 11% [1]. The “democratization of luxury” concept pushed by luxury conglomerates via aggressive marketing approaches and retail network expansion worldwide made luxury goods more accessible to broader consumer base.

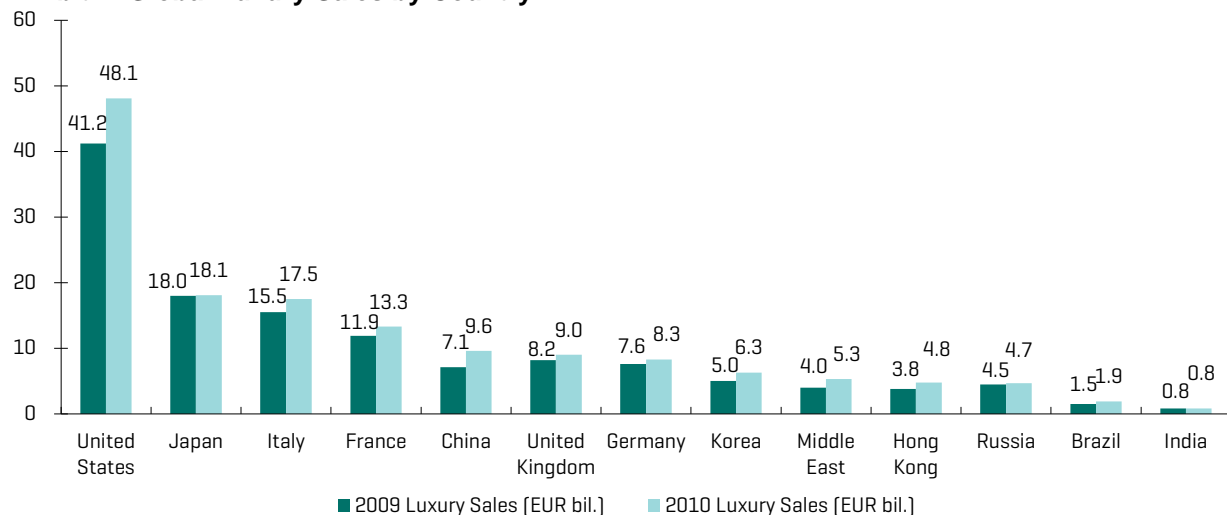
**Consolidation (2001-2004):** The September 11th terrorist attacks, economic consolidation, and the outbreak of SARS hurt consumer confidence in luxury spending and international travel. However, the decrease in luxury spending was only minor in 2002 and 2003, and recovered fully in 2004 [4].

**Expansion (2005-2007):** Global luxury sales grew at a CAGR of 8% [4]. During this period, real GDP growth and market capitalization gain continued to drive wealth creation in most parts of the world. Developing countries especially experienced robust growth. The financial gains were particularly strong in Latin America, the Middle East, Africa, and Asia-Pacific excluding Japan. In comparison, the growth in Europe and the U.S. was moderate [9]. Global luxury retailers continued to expand. Hard luxury and accessories were the top-performing luxury categories in the period [5].

**Financial Crisis (2008-2009):** Personal income and wealth suffered in the financial turmoil triggered by the subprime mortgage crisis and subsequent economic downturn. With high unemployment rates and low consumer confidence, luxury consumption declined sharply, especially in the mature markets of the U.S., Europe, and Japan. Emerging markets excluding China were hit less severely and recovered quickly, with good prospects for 2010. China, however, delivered super-strong performance with 31% and 20% year-over-year growth in 2008 and 2009, respectively [5].

**Rebound (2010-2011):** The economic recovery boosted consumer confidence. The growth of luxury sales in 2010 (13%) was strong across the regions except Japan. The Americas and Europe posted double-digit growth. China again achieved substantial growth in 2010, up 35%, making it the fifth-largest market for luxury goods. The outlook of the global luxury industry for 2011 and onward is encouraging. Bain is expecting 10% growth in global sales in 2011 and 6% to 7% CAGR (constant exchange rate) in 2012 to 2014 [1]. The robust growth of global luxury goods in 2010 and 2011 was driven by both the organic demand from mature markets and continued growth in developing countries. The Americas and Europe are estimated to grow by 8% and 7%, respectively, in 2011, while China and Brazil are expected to grow by 35% and 20% respectively. Japan, despite the March earthquake, is expected to grow 2% in 2011 [1, 4, 5].

### Exhibit 2: Global Luxury Sales by Country



Source: Bain & Company, Luxury Goods Worldwide Market Study. 2010 luxury sales for India are estimated numbers disclosed in Bain's Spring update. [1, 4, 5]

## What's Moving the Global Luxury Goods Market?

Economic growth worldwide, rising income and wealth levels, and continuous global urbanization are fueling the development of the global luxury goods market. Based on Bain's research, the development of the luxury market had high correlation with macro indicators, such as real GDP, tourist arrivals, housing prices, wealth (liquid assets), and dispensable income. [6] Urbanization is another important factor. Concentrated population is the premise for mall construction (department and specialty stores), the traditional distribution channels for luxury retailers.

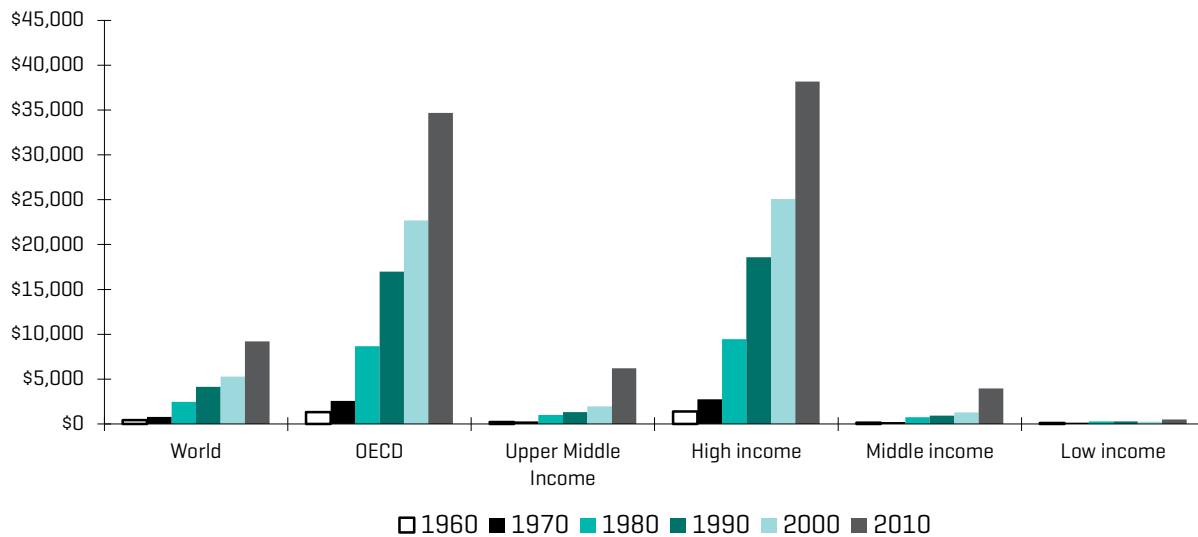
### The Growth of the Global Economy and Income

Although much of the growth in GDP per capita in the 1970s to the 1990s was seen in high-income countries, upper-middle income countries picked up speed in the 2000s. This is consistent with the development cycle of the global luxury market, which was driven by developed countries in the 1970s to the 1990s with emerging countries joining the force in the 2000s.

Geographically, Asia, Latin America, the Middle East, and Africa achieved the strongest growth in GDP per capita in the 2000s despite their lower base compared to North America and Europe.

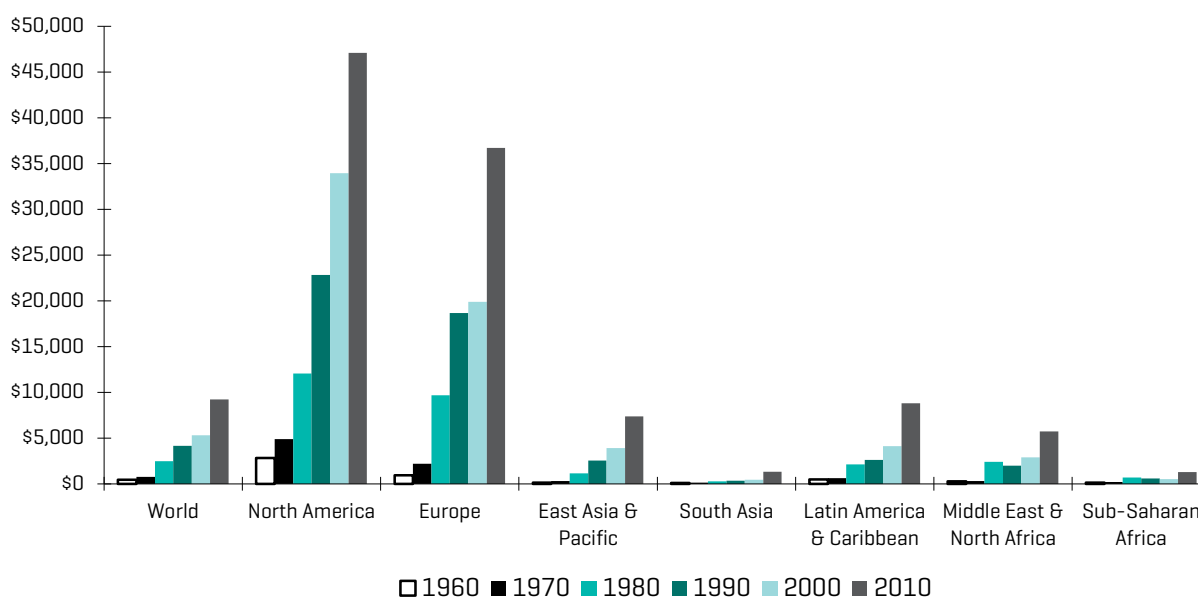
The addressable market for luxury goods, defined as individuals with annual income above USD \$30,000, grew by 300 million individuals globally from 1995 to 2010, reaching more than 600 million, according to research conducted by the Goldman Sachs Group. Among this group, the U.S. and Europe together represented over two-thirds of the population; Japan accounted for about 60 million to 80 million individuals. The addressable market is estimated to grow by more than 600 million individuals from 2010 to 2025 as global economic realignment continues to pick up speed. China is expected to contribute 30% of the growth, with 200 million more consumers entering the luxury market by 2025 [8].

**Exhibit 3: the Growth of GDP Per Capita Worldwide by Income Basket (Current, USD)**



Source: World Bank. Data as of the end of respective years. China, Russia, Brazil, Malaysia, South Africa, Thailand and Turkey are classified as upper-middle income countries by World Bank. For the upper-middle income basket, data in 1965 is used instead of 1960 due to missing data.

**Exhibit 4: the Growth of GDP Per Capita Worldwide by Region (Current, USD)**

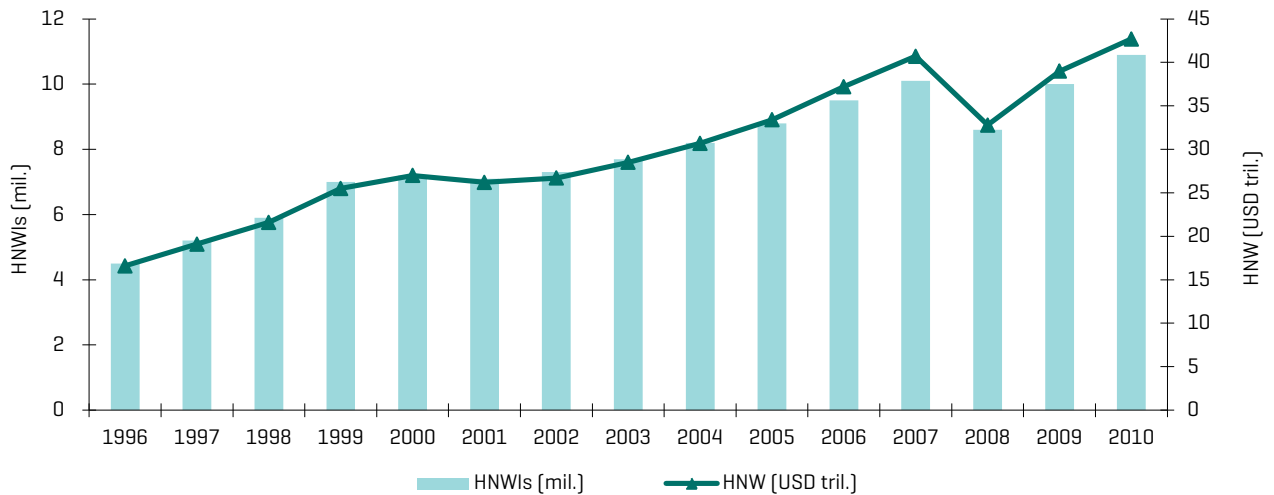


Source: World Bank. Data as of the end of respective years. For Latin America and the Caribbean, data in 1965 is used instead of 1960. For the Middle East and North Africa, data in 1968 and 2009 are used instead of 1960 and 2010, respectively.

### The Accumulated Global Wealth

Personal wealth has amassed globally as a result of continuous global economic growth and decades of gains in world equity markets. Based on the World Wealth Reports published by Capgemini and Merrill Lynch Global Wealth Management, the population and wealth of high net worth individuals (HNWIs) grew by 124% and 145%, respectively, from 1996 to 2007 (7.6% and 8.5%, annually) (see Exhibit 5). Although the financial crisis and subsequent global economic downturn hit HNWI's personal wealth drastically, dropping it by 19.4% in 2008 (the HNWI population dropped 14.9%), there was a strong rebound both in number of HNWI's and HNWI's wealth, up 16.3% and 18.9%, respectively, in 2009. The momentum continued in 2010 although at lower rates (up 9.0% for HNWI's and 9.5% for HNWI's wealth) [9].

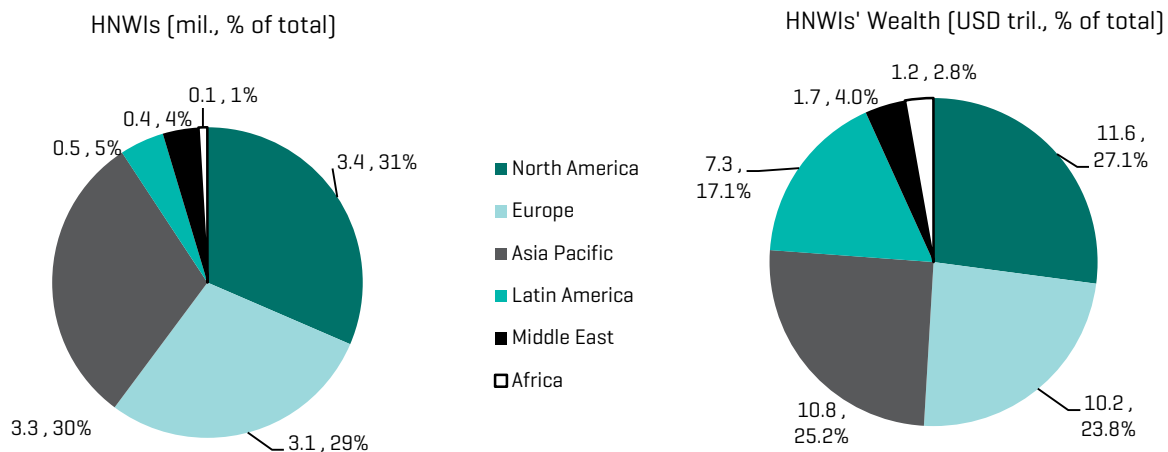
**Exhibit 5: Growth of World Wealth**



Source: World Wealth Report. HNWI's are defined as individuals with investable assets of USD 1 million or more, excluding primary residence, collectibles, consumables, and consumer durables.

As of the end of 2010, Asia-Pacific represented close to 30% of the global HNWI population and 25% of their wealth, surpassing Europe (28%, 24%) and only second to North America (31%, 27%) (see Exhibit 6). Latin America, which only accounted for 4.6% of the global HNWI population, represented 17.1% of HNWI's wealth globally [9].

**Exhibit 6: World Wealth Distribution**

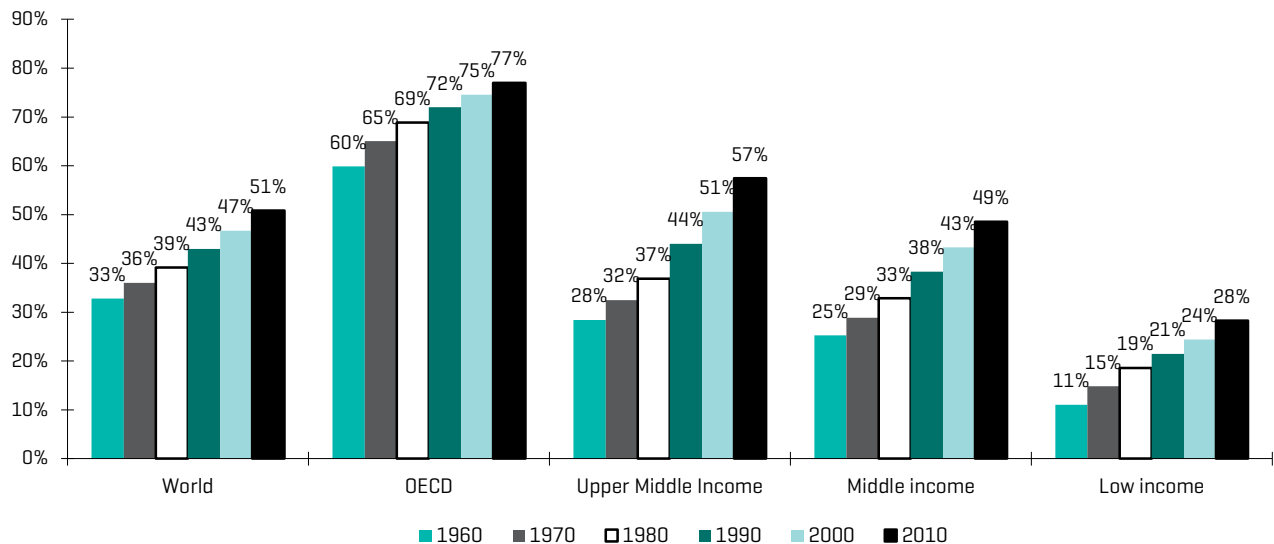


Source: 2011 World Wealth Report. HNWI's are defined as those having investable assets of US\$1 million or more, excluding primary residence, collectibles, consumables, and consumer durables.

## Global Urbanization

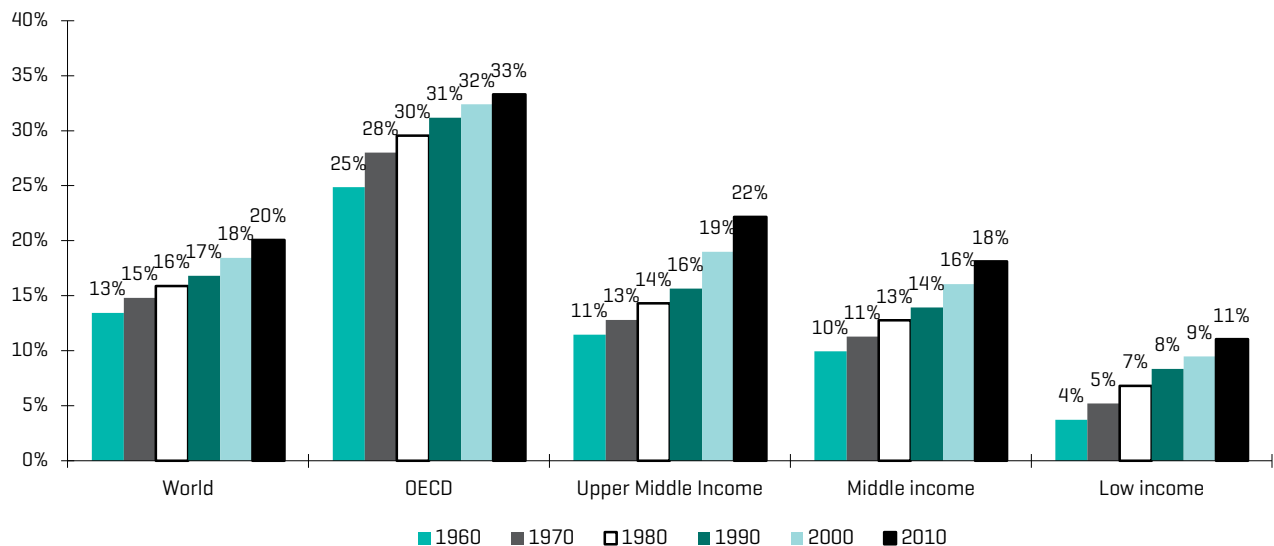
Upper-middle income countries have been playing catch up since the 1980s. The same pattern was seen in the population changes of urban agglomerations (metropolitan areas) that in 2000 had a population of more than one million (see Exhibit 8).

**Exhibit 7: Urbanization Ratios by Income**



Source: World Bank. Data as of the end of respective years.

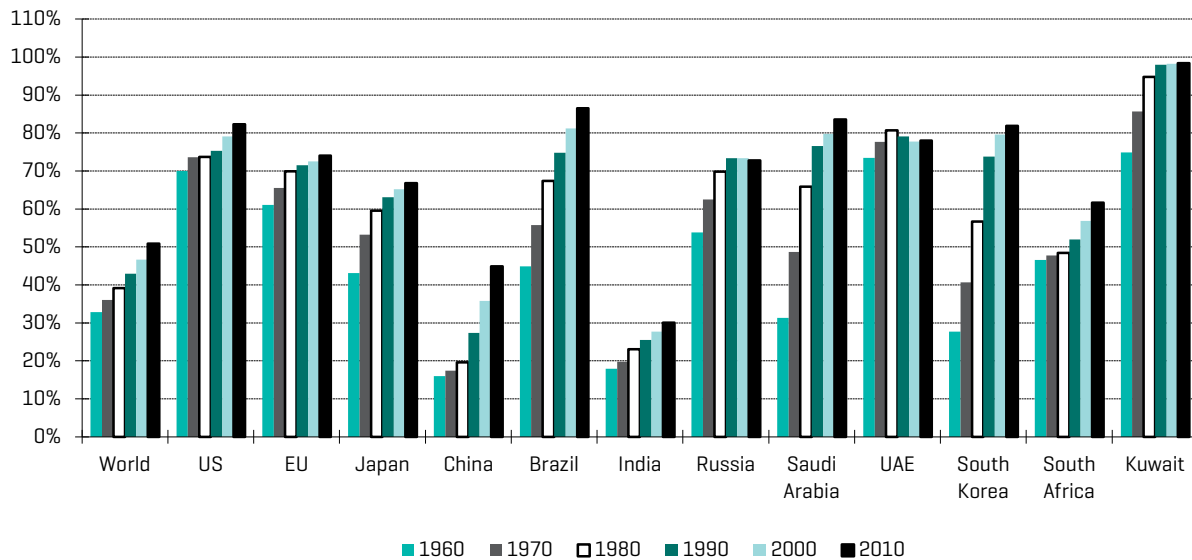
**Exhibit 8: Population in Urban Agglomerations with More than 1 Million People**



Source: World Bank. Data are in percentage of total population in the respective regions as of the end of respective years.

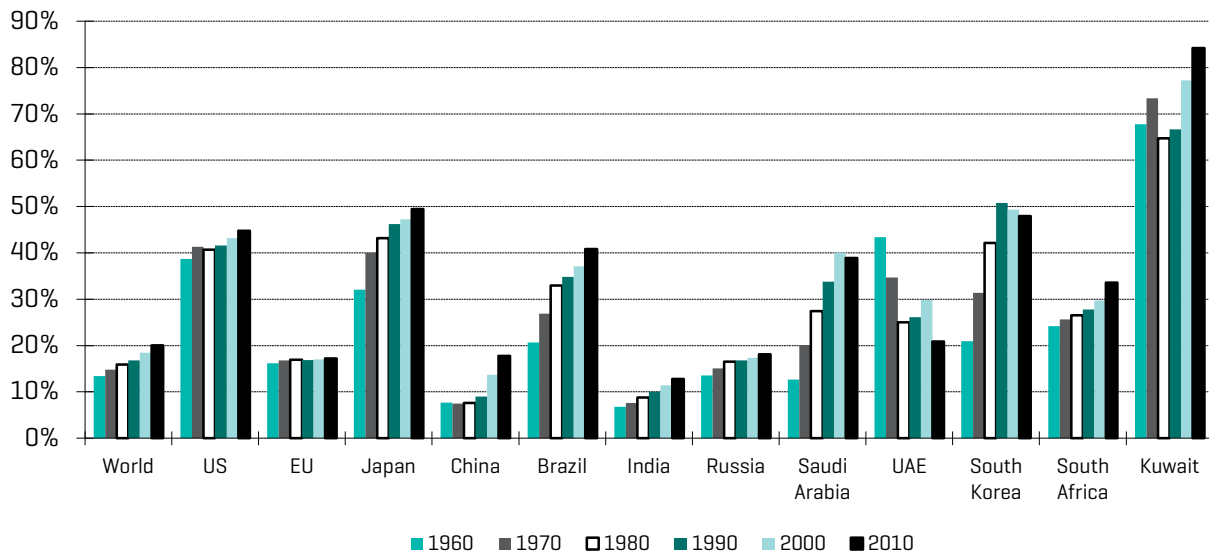
As the representatives of upper-middle income countries, China, Brazil, and Russia displayed different dynamics. Brazil perhaps witnessed the greatest urbanization since 1960 (see Exhibit 9). After peaking in the 1990s, Russia's urbanization declined slightly in the 2000s. China's urbanization, in comparison, picked up speed in the 1980s to the 2000s.

**Exhibit 9: Urbanization Ratios by Region**



Source: World Bank. Data as of the end of respective years.

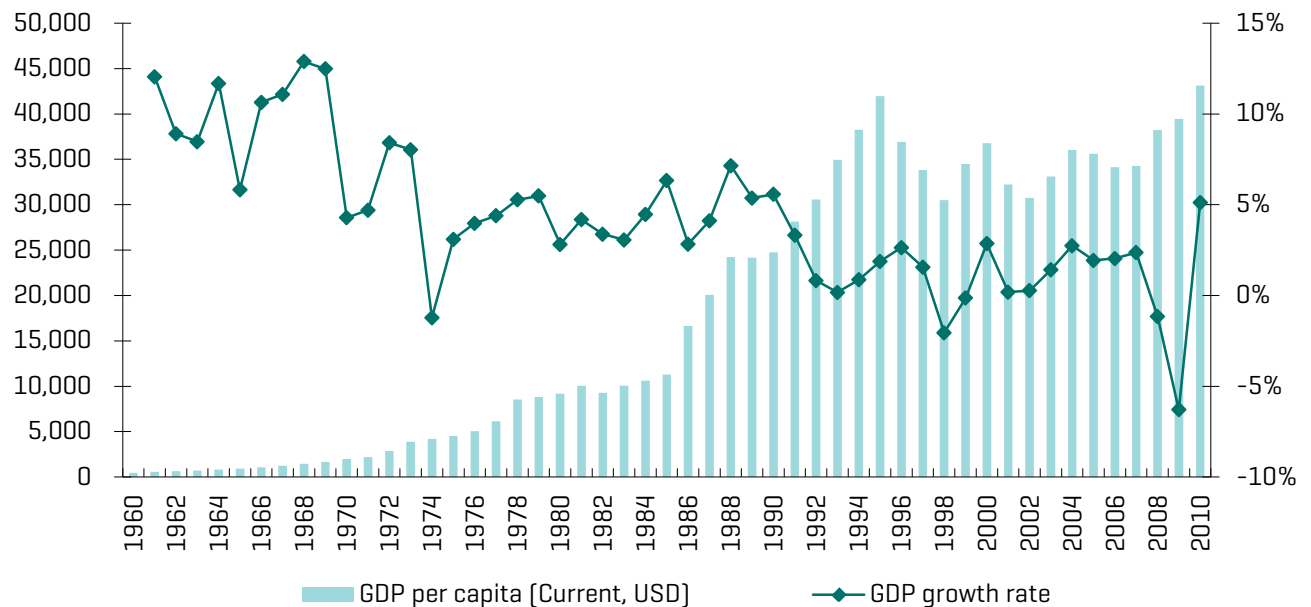
**Exhibit 10: Population in Urban agglomerations with more than 1 million people**



Source: World Bank. Data are in percentage of total population in the respective countries as of the end of respective years.

### Japan Rising: the Force Behind the Proliferation of Global Luxury Retail in the 1980s and 1990s

Japan achieved extraordinary economic success after World War II, with nearly double-digit growth throughout the 1960s (see Exhibit 11). As wealth accumulated, discretionary spending and international travels increased. The waves of Japanese shoppers for luxury handbags and designer apparel attracted attention of European luxury houses. They started to enter Japan in the 1970s and opened stores at travel destinations following the footprint of Japanese tourists. Their success with the Japanese made luxury goods makers rich, which further spurred the expansion of luxury retail network in matured and other emerging markets [2].

**Exhibit 11: Japan GDP & Income Growth**

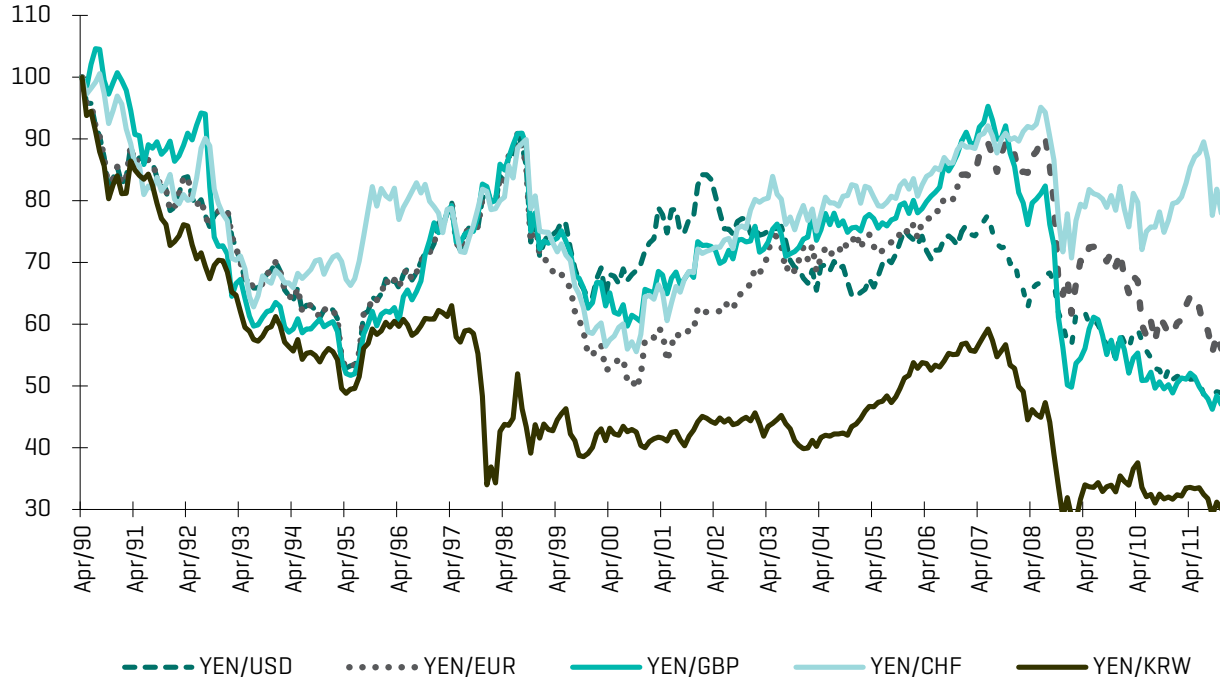
Source: World Bank. Annual growth rates of GDP at market prices based on constant local currency.

Unlike in the U.S. and Europe, where luxury goods are traditionally segmented for wealthy people, luxury items in Japan are more like middle-class consumer goods, influenced by Japanese fashion magazines and department stores, which dictated the fashion trends among the Japanese middle class. The luxury market boomed in Japan in the 1980s, and luxury spending became a part of middle-class living [7]. MF Global estimated in 2011 that almost 50% of Japanese women above age 20 owned a Louis Vuitton handbag [11]. With such an enormous consumer base, Japan has become the world's only mass luxury market and the largest consumer of global luxury goods [7].

As a part of the luxury consumer base in Japan, the so-called "parasite singles" played an important role in the democratization of luxury in 1990s. Disappointed by their low social status at work and home, a number of young working women in their mid-20s to early 30s chose to postpone marriage and stay with their parents, giving themselves more dispensable income and time for luxury spending. These "parasite singles" traveled more and spent more, thus bolstering the massive consumer base and the continuous growth of the Japanese luxury market [2, 7]. Based on McKinsey's survey conducted in 2009, the Japanese luxury consumer base is disproportionately female over age 35 [7].

Japanese consumers' desire for luxury goods, as a symbol of social status and economic success never waned, even when the Japanese bubble economy crashed in the 1990s. Of course, the appreciated Japanese yen provided continuous stimulus for international travelers and offshore luxury spending.



**Exhibit 12: Japanese Yen Exchange Rates**

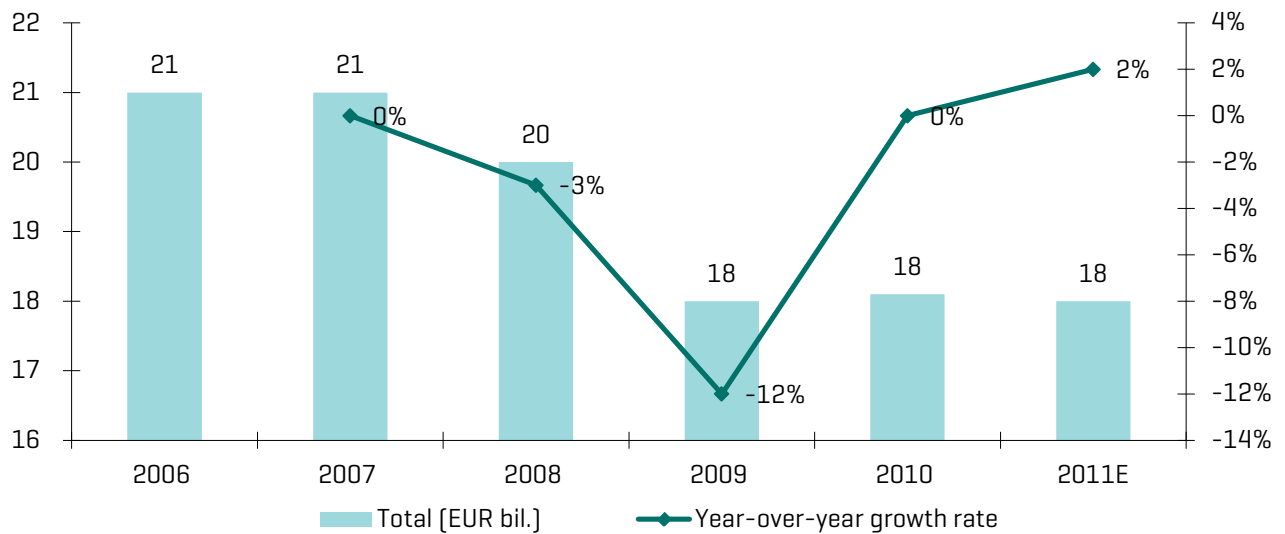
Source: Factset. Mid exchange rates. Normalized to 100 at the end of April 1990.

Sales of luxury goods in Japan started to decline in 2008 after bringing in EUR 21 billion in 2007 (see Exhibit 13). The 12% drop-off in 2009 and slow recovery compared to other markets was far from explainable by the financial crisis and burst of luxury bubble in Japan alone [5, 7]. Instead, fundamental changes in the consumer base's behavior and the distribution channels had profound long-term impact. Based on McKinsey's study, four important shifts were contributing to the downturn of the Japanese luxury market [7]:

- Japanese women became more confident to set styles rather than follow them and began to mix the expensive with the cheap;
- Japanese consumers showed an increasing preference for luxury experience instead of luxury goods;
- The proliferation of choices competed for "luxury wallets"; and
- Department stores--the principal luxury distribution channel in Japan--lost market share, making it harder for luxury makers to target captive audience.

Bain also pointed to existing consumers retiring as another cause of the shrinking consumer base and, in turn, the decline of Japanese luxury sales [2, 5].

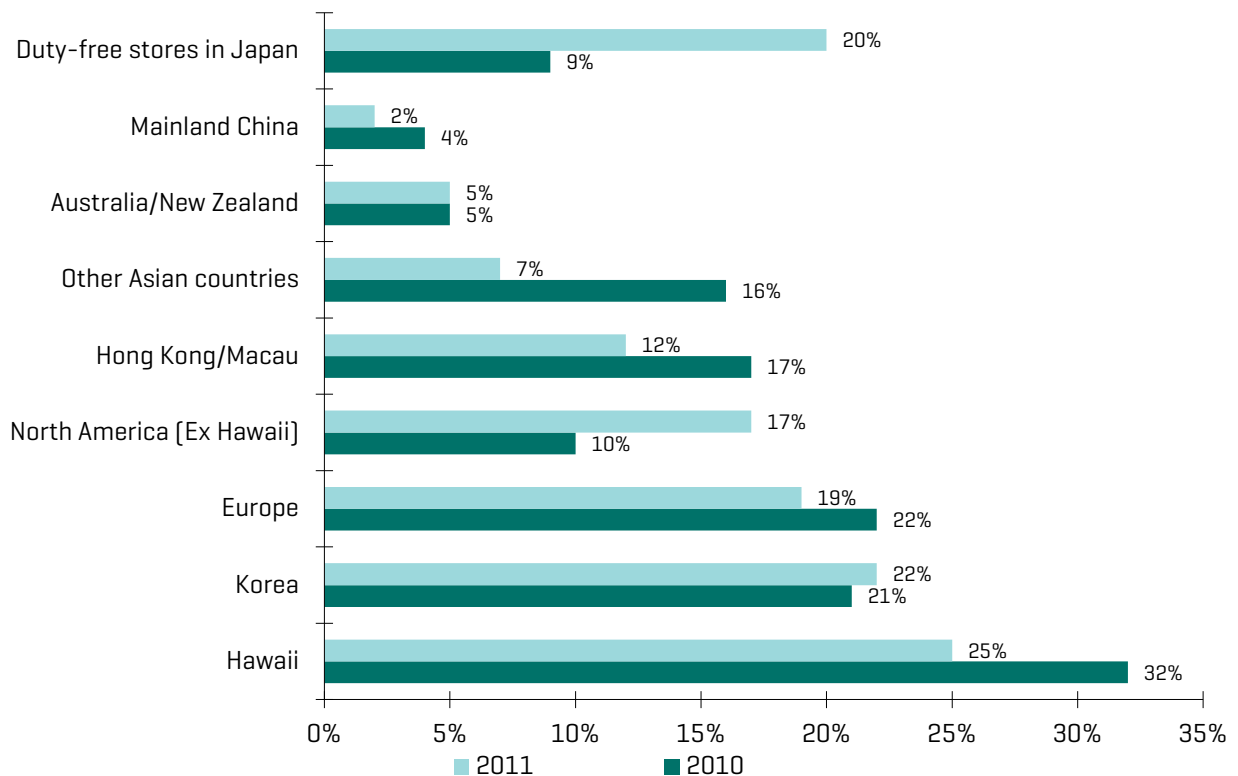
**Exhibit 13: Luxury Sales in Japan**



Source: Bain & Company. [1, 5].

According to the survey conducted by McKinsey in 2010/2011, about 25% of respondents had purchased luxury goods outside Japan in the past 24 months due to lower prices abroad. In fact, shopping for luxury goods was one of the major reasons Japanese consumers gave for overseas travels. These price differentials were further widened by the strong yen [10].

**Exhibit 14: Where Japanese Consumers Bought Luxury Goods**

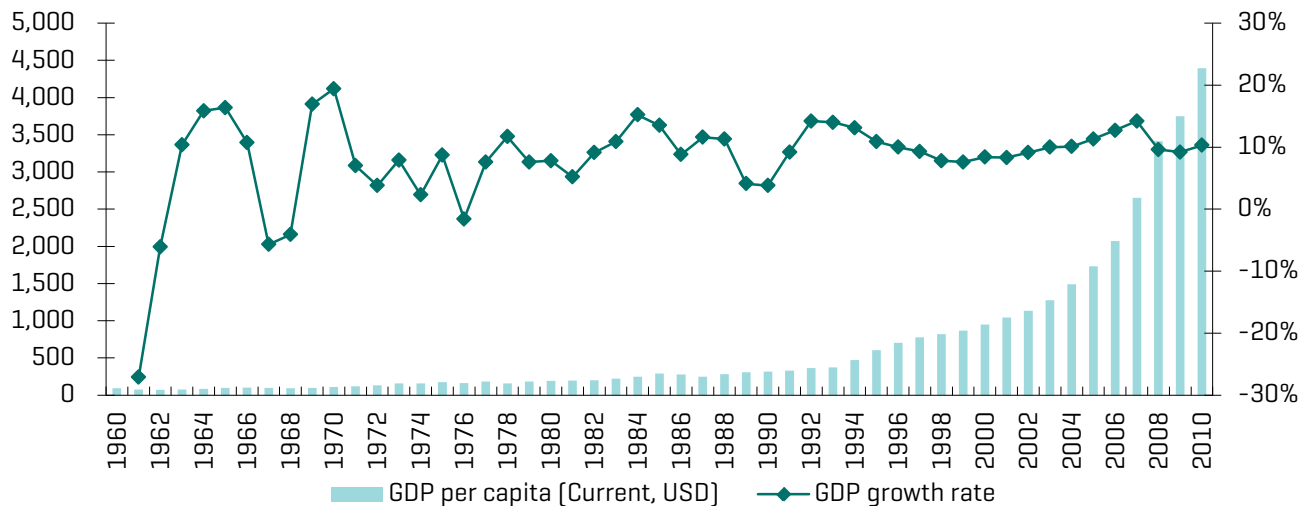


Source: McKinsey Japan Luxury Consumer Survey 2010/2011. Percent of respondents who bought luxury fashion products abroad within last 12 months; multiple choice.

### China: Another Japan for Luxury Goods Makers?

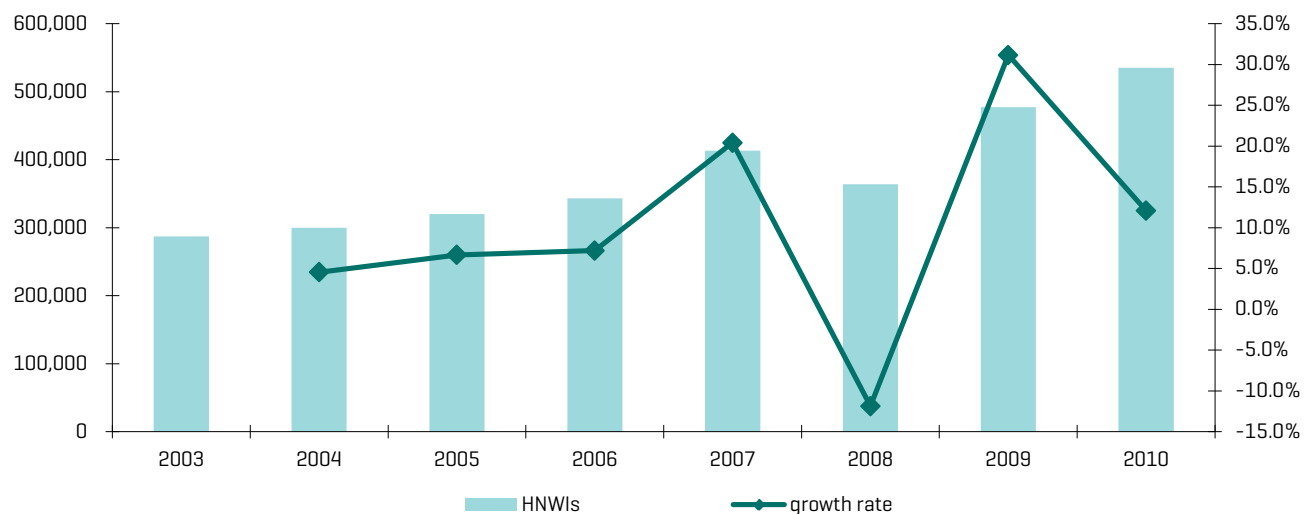
China has essentially repeated the growth story of Japan. After two decades of sustained, almost double-digit economic growth during the 1970s and 1980s, its income level in 1990 had tripled from where it was in 1970 (see Exhibit 15). Luxury houses like Louis Vuitton, Montblanc and Dunhill started to tap into the Chinese market in the 1990s [12, 15]. As income growth picked up speed and wealth amassed in the 2000s, luxury consumption in China took off.

**Exhibit 15: China GDP & Income Growth**



Source: World Bank. Annual growth rates of GDP at market prices based on constant local currency.

**Exhibit 16: Chinese HNWIs**



Source: World Wealth Report.

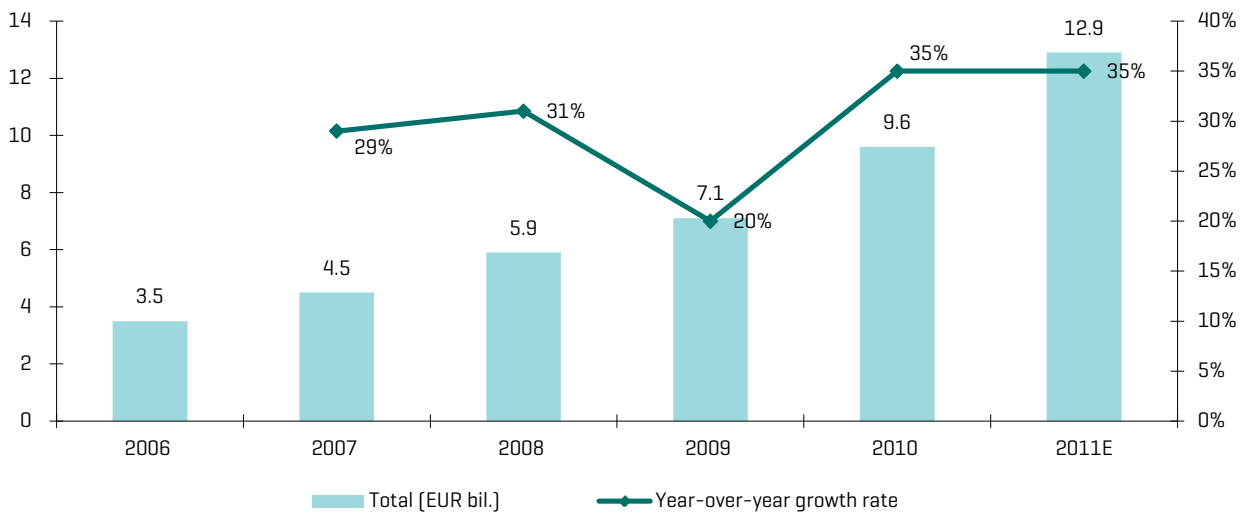
Traditionally, the luxury consumers in China had been predominately males. As women have gained social and economic independence, they account for about 50% of luxury spending, up from 25% [7, 14]. Only-child teenagers from wealthy families are another potential demographic group pumping up demand for luxury goods. These younger Chinese consumers with easy access to the Internet and media, increased freedom for international travels, and overseas educational experience are more sensitive to global trends [12]. According to the World Luxury Association’s 2011 annual report, Chinese luxury

consumers are 15 and 25 years younger than their European and U.S. counterparts, respectively [17]. Gifting remains a significant portion of luxury spending [13].

Based on Bain's study, luxury sales in China have been growing at 20% to 35% year over year in euros since 2007, even in the stressed years of 2008 and 2009. In 2010, luxury sales in China increased 35%, and were estimated to grow at another 35% in 2011 [1, 4].

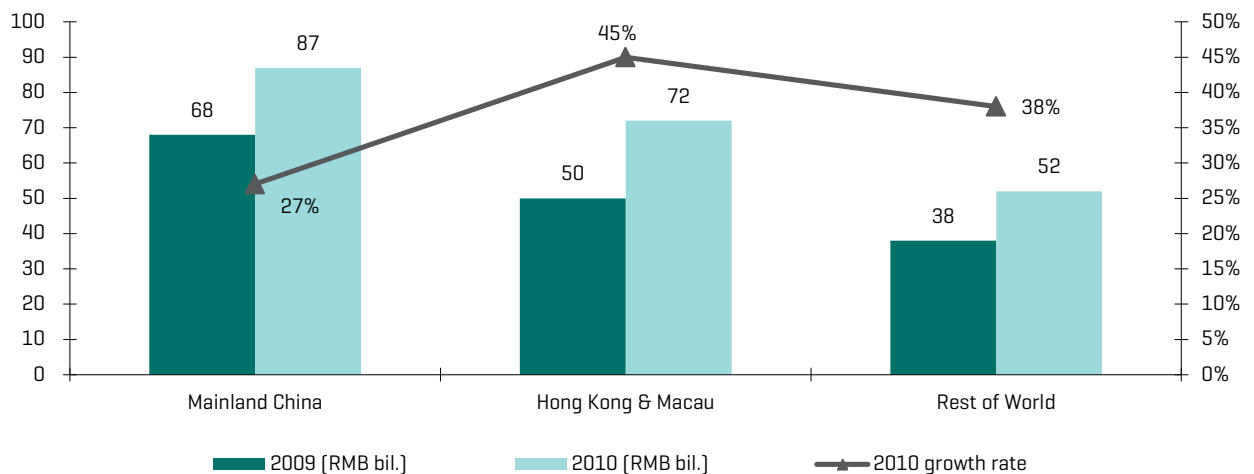
By category, of the RMB 87 billion of mainland China luxury sales in 2010, watches; perfume, cosmetics and personal care; and leather goods were the top three categories for Chinese consumers, together representing over 60% of total domestic luxury sales. Watches and leather goods were the biggest growth categories in 2010, with sales increasing 45% and 30% year over year in RMB, respectively. Watches are expected to be the growth leader again in 2011, with a forecast of 40% growth year over year [13].

**Exhibit 17: Luxury Sales in China**



Source: Bain & Company. 2006 data is estimated based on 29% yoy growth in 2007. [1, 4]

**Exhibit 18: Chinese Luxury Consumption Domestic vs. Abroad**



Source: Bain & Company.

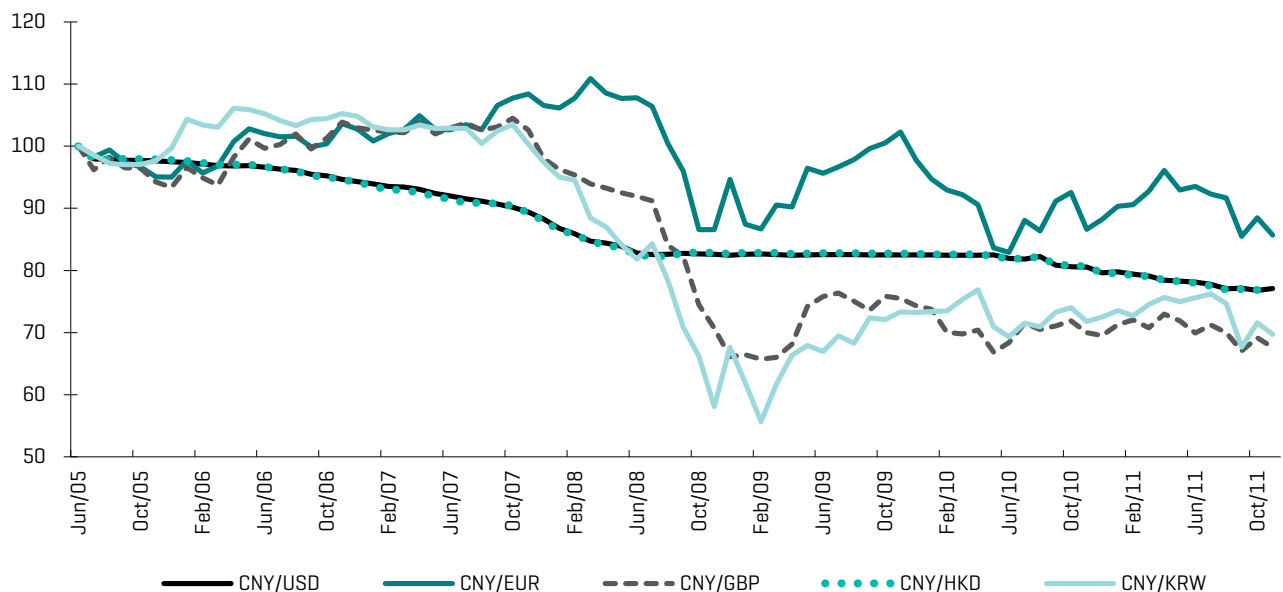
Chinese shoppers' luxury consumption is higher abroad than it is domestically (see Exhibit 18). This is predominately based on four factors:

- Higher domestic prices due to high import tariffs and consumption taxes in mainland China;
- Limited variety and new items available domestically;
- Increased ease for international travels; and
- Strong yuan (see Exhibit 19).

In 2010, Chinese shoppers' spending abroad increased more than it did domestically, with the former representing approximately 58% of their total worldwide consumption.

Bain estimated that luxury sales in greater China (including Hong Kong, Taiwan, and Macau) would hit EUR 23.5 billion in 2011 and that Chinese tourists were likely to purchase another EUR 12 billion to EUR 15 billion worth of luxury goods abroad. Chinese consumers (domestic and abroad) account for more than 20% of the world luxury consumption in 2011. In key cities such as Milan and Paris, sales to Chinese tourists were estimated to account for up to 50% of the total luxury sales in 2010. The consumption of luxury goods by Chinese tourists has been growing in NYC and Hawaii as well [1].

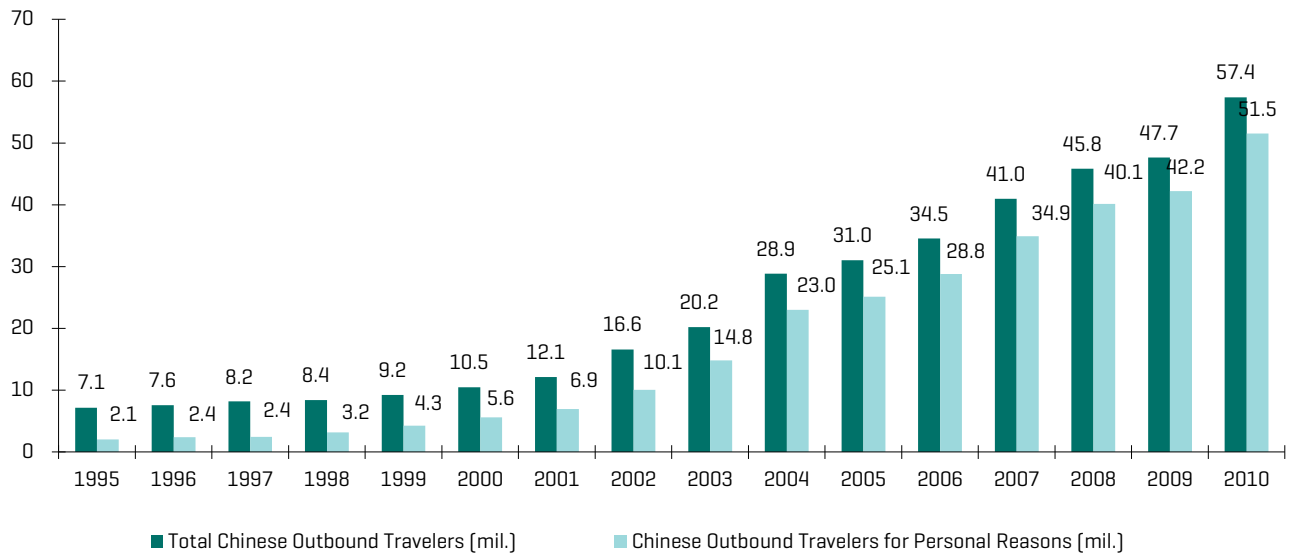
### Exhibit 19: Appreciated Yuan Stimulated Shopping Abroad



Source: Factset. Mid exchange rates. Normalized to 100 at the end of June 2005. CNY = Renminbi.

Based on the China Statistics Bureau, the number of Chinese tourists traveling abroad for personal reasons has grown exponentially since 2000 due to increased freedom for international travel, rising income and wealth levels, and strong yuan (see Exhibit 20). Naturally, the neighboring regions and favorite travel destinations benefit enormously.

**Exhibit 20: Chinese Outbound Travelers**

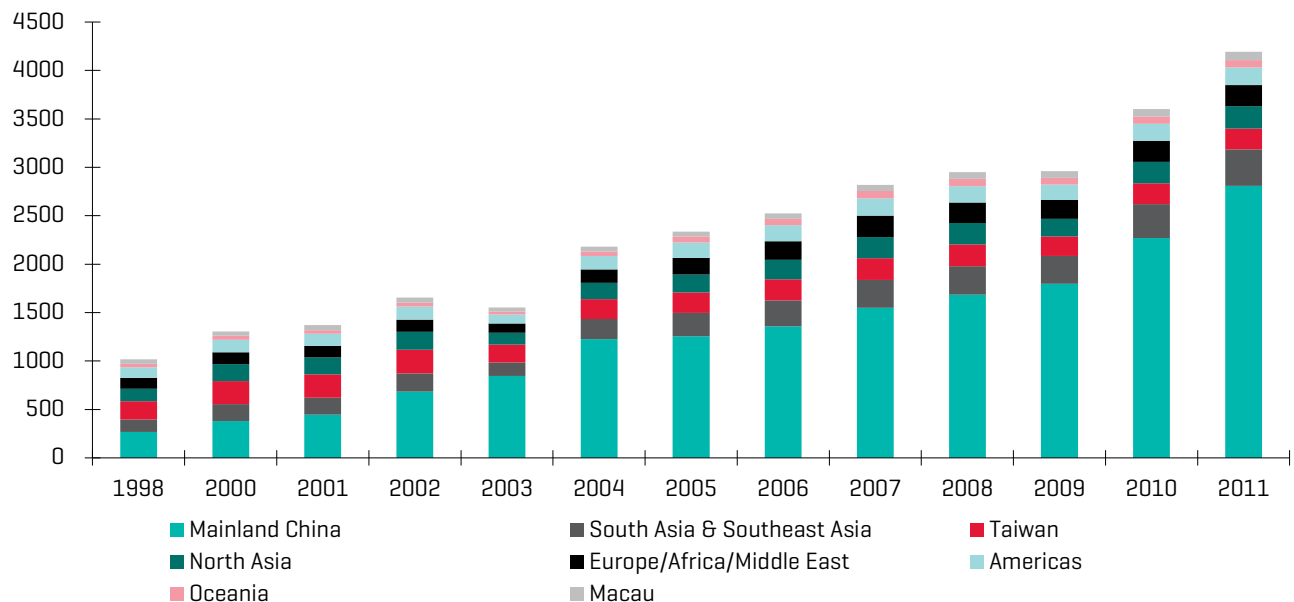


Source: China Statistics Bureau.

**Chinese Shoppers in the Hong Kong Luxury Market**

Hong Kong is perhaps the most important market for Chinese luxury shoppers, due to its proximity, ease for entry and the strong yuan against the Hong Kong dollar. In 2011, Chinese tourist arrivals hit 28.1 million, an increase of 23.9% year over year (see Exhibit 21). Chinese tourists accounted for 67% of total tourist arrivals in Hong Kong in 2011, up from 26% in 1998, followed by visitors from South and Southeast Asia (8.9%) and North Asia (5.5%). As a result of the appreciation of the yuan, the per capita spending of overnight mainland China visitors grew by 10.3% to HKD 8,220 in 2011 (see Exhibit 22) [19].

**Exhibit 21: Tourist Arrivals in Hong Kong**



Source: China Statistics Bureau. Numbers of tourist arrivals are in 10 thousands.

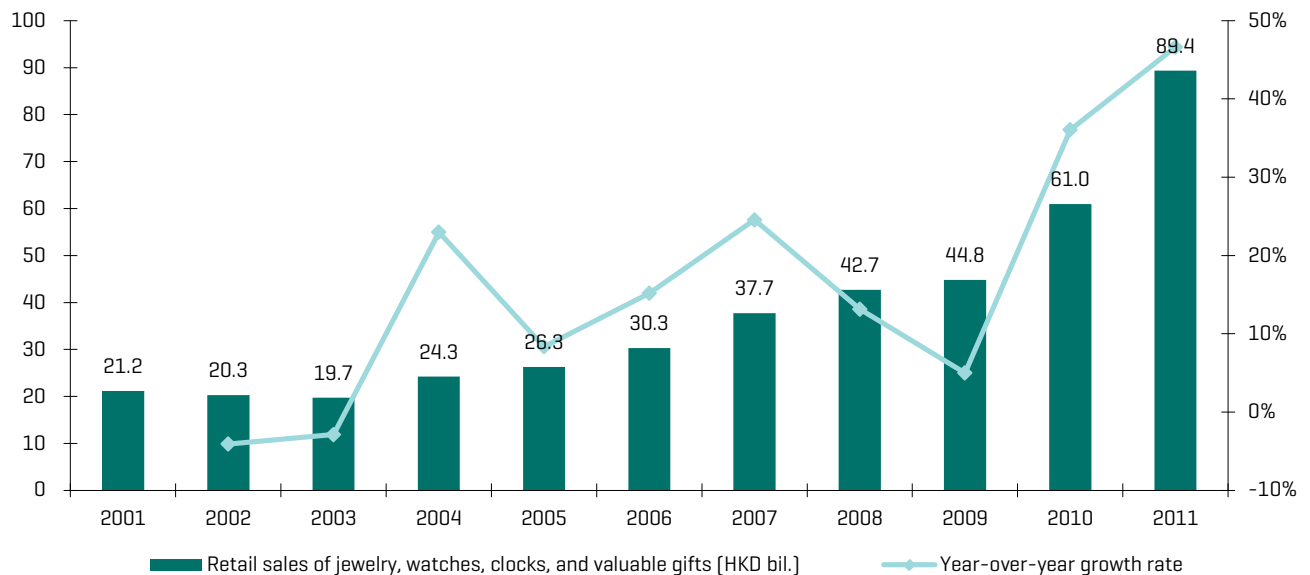
**Exhibit 22: Overnight Visitor Per Capita Spending (HKD) in Hong Kong**

Year	Mainland China	South Asia & Southeast Asia	Taiwan	North Asia	Europe/Africa /Middle East	Americas	Oceania	Macau	All Regions
2000	4,868	4,268	4,839	4,571	4,591	5,076	3,983	1,622	4,612
2001	5,169	3,952	4,422	3,988	4,723	5,072	4,495	1,756	4,588
2002	5,487	4,097	4,508	4,355	4,950	4,537	4,072	1,412	4,837
2003	5,235	4,680	5,176	4,292	4,996	5,477	4,761	2,325	5,041
2004	4,355	4,350	4,789	4,112	5,122	5,250	5,072	2,554	4,478
2005	4,554	4,377	4,916	4,300	5,331	5,477	5,068	2,765	4,663
2006	4,705	4,550	5,329	4,316	5,366	5,505	5,463	2,802	4,799
2007	5,193	4,773	5,015	4,303	5,640	5,744	5,589	2,772	5,122
2008	5,676	4,744	5,126	4,306	6,045	5,760	6,181	3,041	5,439
2009	6,620	4,460	5,117	3,893	5,127	4,914	5,330	3,069	5,770
2010	7,453	5,251	5,197	4,976	6,674	6,476	7,050	3,824	6,728
2011	8,220	6,121	5,860	5,113	7,147	7,004	7,849	4,363	7,470

Source: Hong Kong Census &amp; Statistics Department.

**Exhibit 23: Mainland China Overnight Visitors' Increasing Portion of Visitor Spending in Hong Kong**

Source: Hong Kong Census &amp; Statistics Department.

**Exhibit 24: Retail Sales of Jewelry, Watches, Clocks, and Valuable Gifts in Hong Kong**

Source: Hong Kong Census & Statistics Department.

Retail sales of jewelry, watches, clocks, and valuable gifts in Hong Kong increased 36% and 47% year over year in 2010 and 2011 (see Exhibit 24).

Chow Sang Sang, for example, reported a 53% increase in jewelry retail sales in 2011 (73.7% of the total revenue for the fiscal year ended December 31), among which, mainland China operations accounted for 36% of the turnover with 64% year-over-year growth. Its Hong Kong and Macau operations registered 48% growth in jewelry retail sales in 2011; mainland China tourists contributed 48% of the sales [18].

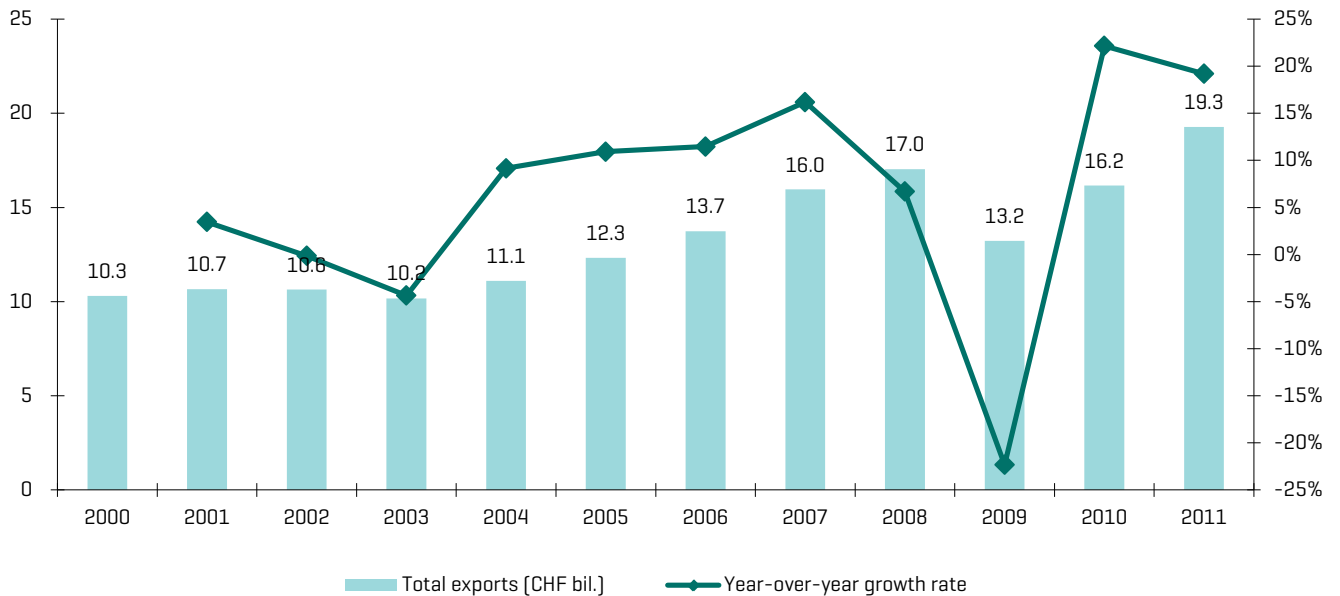
Luk Fook, on the other hand, posted a 57.4% increase in retail sales in 2010 (79.6% of the total revenue for the fiscal year ended March 31, 2011). The Hong Kong market was still the main contributor, accounting for 72.8% of the total revenue, which increased 47.0% in 2010. Visitors from mainland China were responsible for over 50% of the group's Hong Kong sales. Its Mainland China operations were the fastest-growing areas, recording a 63.9% increase in revenue [19].

### Hong Kong/Mainland China, the Major Destinations for Swiss Watch Exports

Swiss watches are sought-after luxury items. Based on the statistics from the Association of the Swiss Watch Industry, exports of Swiss watches grew steadily from 2003 to 2008 at a CAGR of 10.8% (see Exhibit 25). Despite the hard hit they took in the financial crisis, exports of Swiss watches rebounded significantly, increasing 22% and 19% in 2010 and 2011, respectively.

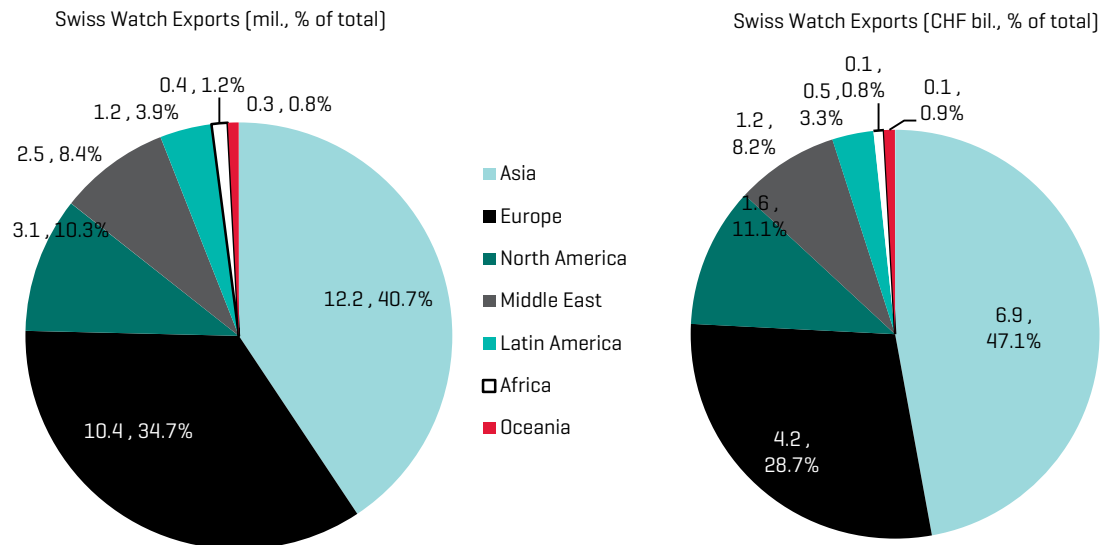


**Exhibit 25: Total Exports of Swiss Watches**



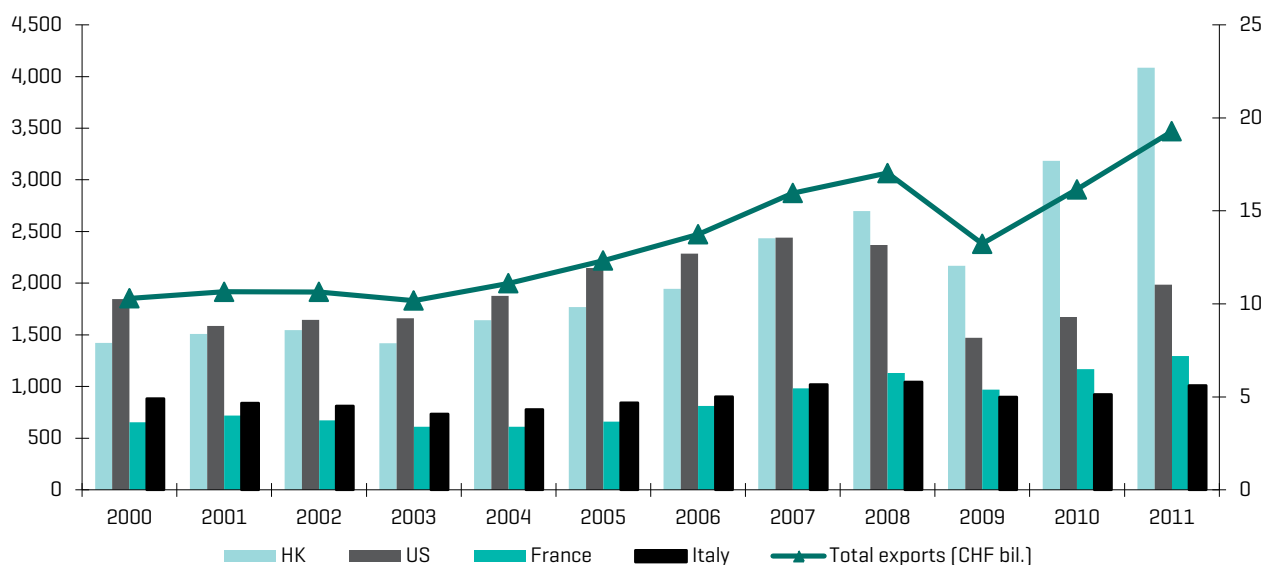
Source: Association of the Swiss Watch Industry.

**Exhibit 26: Exports of Swiss Watches by Region: January to October 2011**



Source: Association of the Swiss Watch Industry. Export date from January to October 2011.

Geographically, Asia is the top destination for Swiss watches, absorbing 55% of the total value of exports in 2011 at a growth rate of 25.6% year over year. Europe and America, on the other hand, only represented 29% and 14% of the total value of exports in 2011, respectively. Although Asia only received 40.7% of total exported units during the first 10 months of 2011, it accounted for 47.1% of the total value of exports during that period, indicating the region is absorbing more-expensive Swiss watches (see Exhibit 26).

**Exhibit 27: Exports of Swiss Watches by Country: 2000 to 2011**

Source: Association of the Swiss Watch Industry.

At the country level, Hong Kong, the U.S., and mainland China were the top three destinations for Swiss exports in 2011 (see Exhibit 28).

**Exhibit 28: World Distribution of Swiss Watches: 2011**

Top 15 Destinations in 2010	Value in 2010 (CHF mil.)	2010 Change%	2010 Share%	Top 15 Destinations in 2011	Value in 2011 (CHF mil.)	2011 Change%	2011 Share%
Hong Kong	3185.5	46.9%	19.7%	Hong Kong	4085.9	28.3%	21.2%
USA	1674.4	13.8%	10.4%	USA	1984.6	18.4%	10.3%
France	1167.0	20.5%	7.2%	China	1636.3	48.7%	8.5%
China	1099.5	57.0%	6.8%	France	1296.4	10.9%	6.7%
Italy	923.3	2.6%	5.7%	Singapore	1146.4	27.5%	5.9%
Singapore	899.3	33.4%	5.6%	Italy	1011.8	9.5%	5.2%
Japan	806.3	4.9%	5.0%	Japan	909.2	12.6%	4.7%
Germany	768.4	-3.2%	4.8%	Germany	899.2	17.0%	4.7%
United Kingdom	596.5	9.6%	3.7%	United Arab Emirates	682.9	17.9%	3.5%
United Arab Emirates	578.5	31.9%	3.6%	United Kingdom	659.0	10.4%	3.4%
Spain	343.7	7.8%	2.1%	South Korea	394.5	29.2%	2.0%
Taiwan	308.9	26.4%	1.9%	Taiwan	366.9	18.8%	1.9%
South Korea	305.2	36.8%	1.9%	Spain	355.5	3.4%	1.8%
Saudi Arabia	256.2	34.2%	1.6%	Saudi Arabia	286.0	11.6%	1.5%
Thailand	205.6	27.2%	1.3%	Thailand	278.6	35.1%	1.4%
Other Countries	3039.8	N/A	18.8%	Other Countries	3285.0	N/A	17.0%
Total	16158.1	22.1%	100.0%	Total	19278.2	19.2%	100.0%

Source: Association of the Swiss Watch Industry.

Hong Kong, especially, had tremendous growth in the importing of Swiss watches over the years. It surpassed the U.S. for the first time in 2008 and has led the way ever since. Emperor Watch & Jewellery Ltd., a prominent watch retailer in Hong Kong cited “the expansion of market demand for luxury goods and substantial increase of purchasing powers of mainland visitors” as the driving forces for its strong growth in 2011 [20].

Mainland China is another hot area. Although the exports to mainland China declined 15.2% in 2009, it was one of the first markets to recover at the end of the year. In 2010 and 2011, the exports to mainland China grew 57% and 48.7%, respectively. Hong Kong and mainland China together received 29.7% of the total value of Swiss watch exports in 2011.

### Chinese Collectors' Passion for Fine Art

Passion investments as a part of HNWI's wealth management have become increasingly important due to their tangible long-term value, low correlation with traditional investment assets, and inflation hedge potentials. Based on research by Capgemini and Merrill Lynch, in 2010 global HNWI's passion investments included: luxury collectibles (e.g., luxury automobiles, boats, and jets; 29% of overall passion investments); art (22%); jewelry, gems and watches (22%); other collectibles (e.g., coins, wine, and antiques; 15%); sports investments (e.g., sports teams, sailing, and race horses; 8%); and miscellaneous (e.g., club memberships, travel, guns, and musical instruments; 5%) [9].

As the global economy recovered and wealth levels rebounded after the financial crisis, HNWI's passion investments came back with significantly surging demand from emerging markets. Chinese investors, especially, are widely reported to be “keen bidders and buyers at art galleries and auction houses” [9].

According to the World Wealth Report, global fine art auctions were hard hit in 2009, reporting only USD 4.6 billion in sales, down from the 2008 record of USD 8.3 billion. Despite U.K. and U.S. auction sales being down by USD 1.9 billion and USD 1.6 billion, respectively, China generated USD 830 million in 2009, an increase of 25% year over year [9]. In fall 2010, the big four auction houses (Christie's, Sotheby's, China Guardian, and Poly) collected a record high of USD 2.2 billion for all art categories in China, with the two domestic auction houses receiving the strongest growth from regional buyers[21].

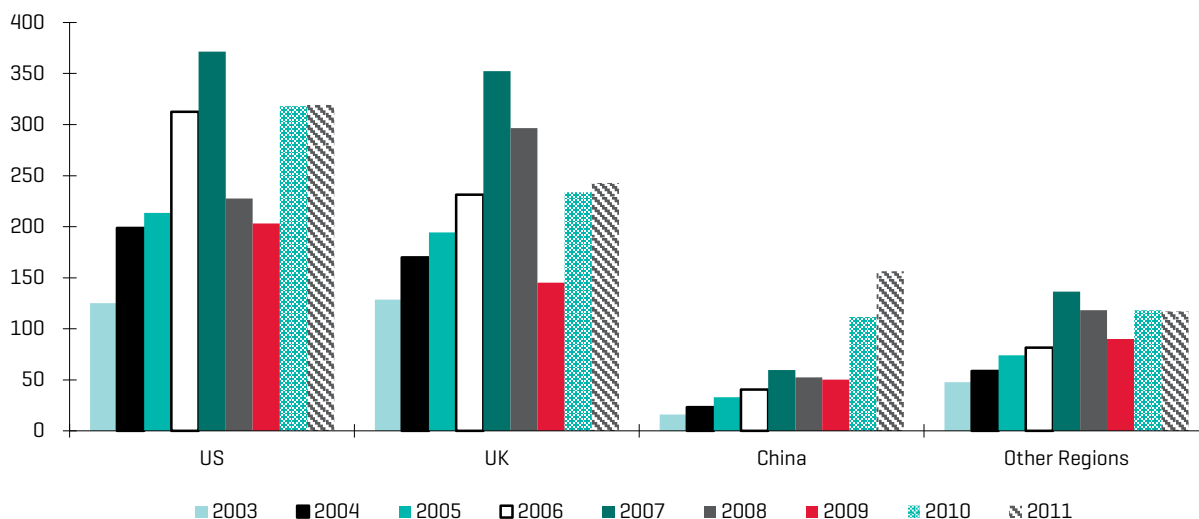
Christie's and Sotheby's, the two largest auctioneers of authenticated fine and decorative art, jewelry, and collectibles, experienced substantial growth in sales from their Hong Kong auctions.

In 2010, Christie's Hong Kong fall season raised HKD 3.23 billion, a 41% increase from its spring total of HKD 2.29 billion and a 95% increase over its fall 2009 sales. Mainland Chinese clients contributed 42% of the total value of Christie's Hong Kong fall auction sales. On June 2, 2011, Christie's concluded its spring season with a total of HKD 4 billion, a 68% increase over the same period a year ago and 17% over the second half of 2010 (HKD 3.4 billion, according to a company press release).

In the fall 2010 Hong Kong season, Sotheby's sold a total of HKD 3.09 billion worth of Asian art, jewelry, wine and watches, surpassing its presale estimate (over HKD 1.6 billion), a 54.7% increase from its spring total and a 138.7% increase over its fall 2009 season in Hong Kong. In 2011, Sotheby's Hong Kong sales were HKD 7.49 billion, a 40% increase from its 2010 auction total of HKD 5.34 billion, according to the company's press release.

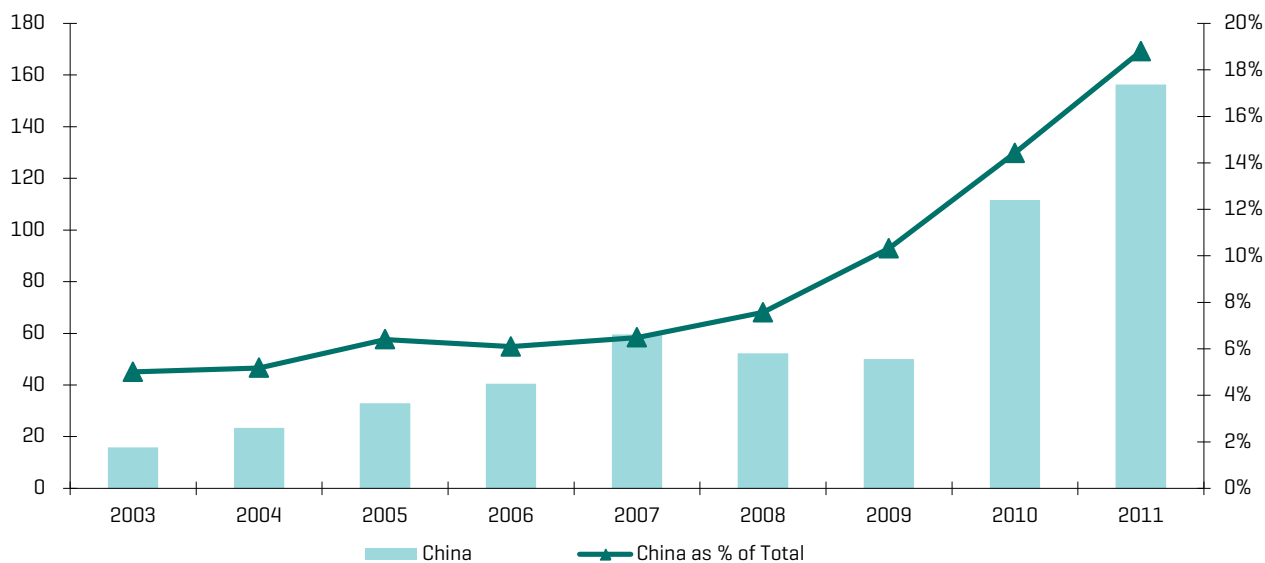
In 2011, Sotheby's revenue increased 7.4%. China (including Hong Kong) contributed 77.7% to the revenue growth. China has become an increasingly important revenue source for Sotheby's, representing 18.8% of the company's total revenue with a growth rate of 40% year over year in 2011 (see Exhibits 29 and 30) [22].

**Exhibit 29: Sotheby's Revenue Breakdown**



Source: Sotheby's Annual Reports. Data are in millions USD.

**Exhibit 30: China, the Fastest Growing Region to Sotheby's Business**

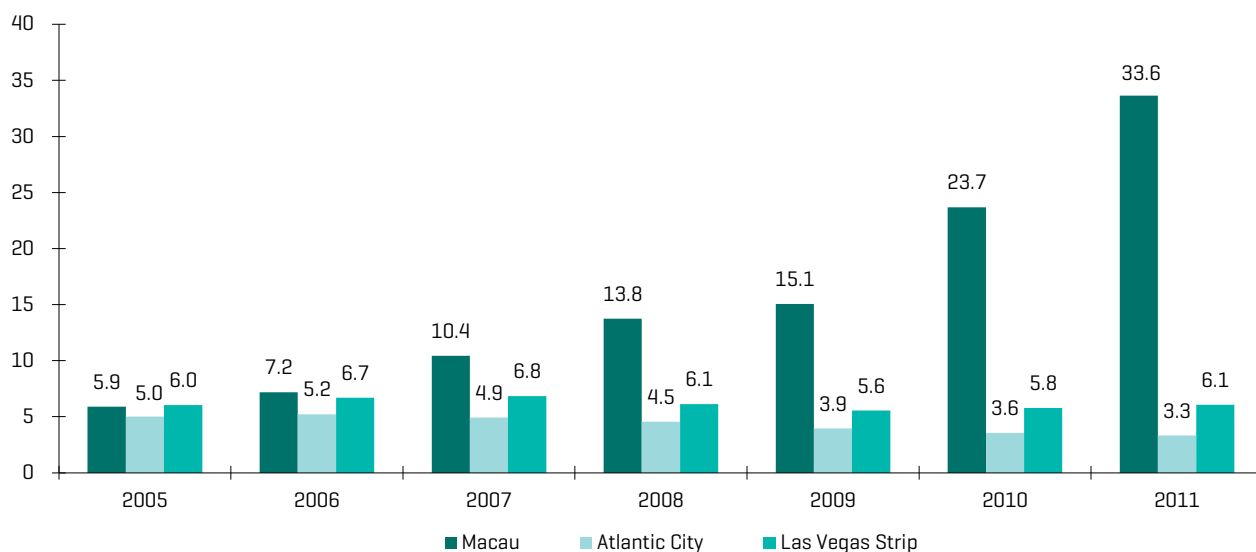


Source: Sotheby's Annual Reports. Data are in millions USD.

### Chinese Tourists Go All In on Macau's Gaming Business

While the gaming business in the Las Vegas Strip and Atlantic City still suffer from stagnant growth due to uncertainty regarding future tourism and convention, Macau has had substantial growth since 2005, driven by continued increases in visitation and spending (see Exhibit 31). From the end of 2005 to 2011, gaming revenue in Macau increased at a CAGR of 33.7%, faring much better than the Las Vegas Strip (0.10%) and Atlantic City (-6.66%, excluding sports book and race book). In 2011, Macau remained the largest gaming market in the world, generating approximately USD 33.6 billion in gaming revenue, up 42% from about USD 23.7 billion in 2010.

**Exhibit 31: Gross Gaming Revenues of Three Casino Centers**

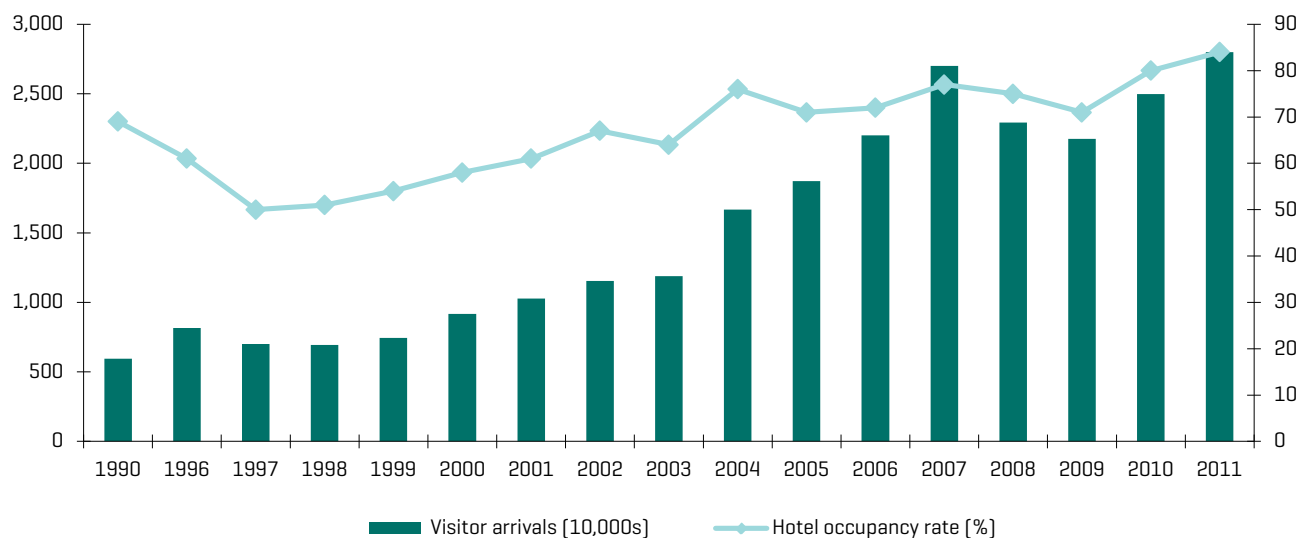


Source: Macau Government Statistics and Census Service, Nevada Gaming Control Board, and New Jersey Casino Control Commission. Gaming Revenue in USD billions. Based on USD/Macau Pataca mid exchange rates from Factset as of respective year end. Data for the Las Vegas Strip are related to non-restricted locations in the area.

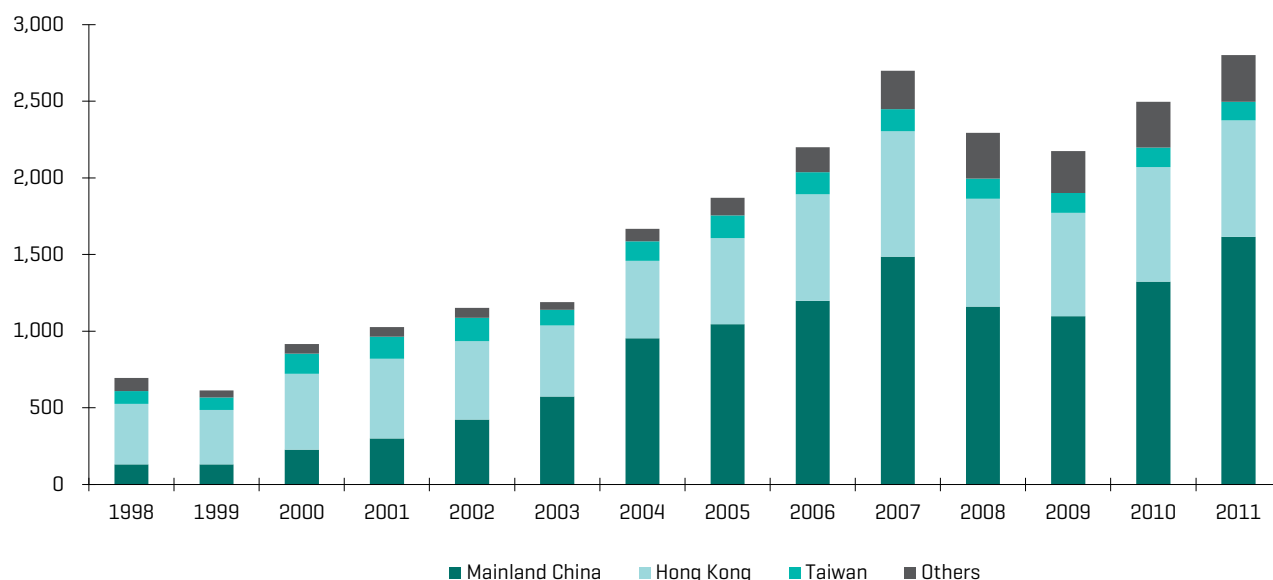
Macau's gaming business is primarily fueled by tourists, typically from Asia. In 1995, Macau constructed an international airport to connect itself to major cities in Asia. Its accommodation capacity for entertainment had tremendous growth. As of the end of 2011, there were 22,356 hotel rooms and 5,302 table games in Macau, compared to 12,978 hotel rooms and 2,762 table games at the end of 2006 [23].

As the only gaming destination in greater China and one of a few in Asia, Macau benefits from its proximity to one of the largest pools of gaming patrons in the world and the general prosperity of Asia. In 2011, Macau attracted a record high number of visitors (see Exhibit 32). Among which, Mainland China, Hong Kong and Taiwan together accounted for 89.1%; mainland China alone accounted for 57.7% of total tourist arrivals in Macau (see Exhibit 33) [27].

**Exhibit 32: Visitor Arrivals and Hotel Occupancy Rate in Macau**



Source: China Statistics Bureau, Macau Government Statistics and Census Service. Excluding foreign employees and students since 2008.

**Exhibit 33: Visitor Arrivals in Macau by Place of Residence**

Source: Macau Government Statistics and Census Service. Visitor arrivals are in 10,000s.

SJM Holdings Limited, which represents the largest market share (29% in 2011 and 31.3% in 2010) of Macau gaming business among the six concessionaires and sub-concessionaires, reported a higher growth rate in its VIP gaming revenue (35.8% year over year, 69.9% of the total revenue) than in its mass market gaming revenue (24.1% year over year) in 2011. Its VIP gaming tables increased to 609 from 507 in 2010. Again, the increased number of mainland China tourists and the amount they spent were the major force fueling the robust growth of its gaming revenue [24].

Melco Crown Entertainment and Galaxy Entertainment Group also reported significant growth in their gaming businesses in Macau with 45% and 120% year-over-year rates, respectively, in 2011. Both quoted mainland China as a key reason for the prosperity of gaming business in Macau [25, 26].

### Chinese Tourists Topped Global Duty-Free Sales

Based on Global Blue, a leading Switzerland-based tax refund and duty-free shopping service provider, Chinese travelers became the top spenders on tax-free goods for the first time in 2010, surpassing Russian, Japanese, American, and Indonesian consumers. With EUR 1.3 billion (approximately USD 1.84 billion based on the then current exchange rates) worth of consumption (up by 95% from 2009), Chinese international shoppers accounted for 17% of all tax-refund transactions tracked by Global Blue in 2010 (fiscal year ended March 31, 2011) [28, 29, 30].

The average spending of Chinese tourists abroad in 2010 was USD 1,026 (approximately 744 euros based on the then current exchange rates), much higher than the levels spent by Russian (USD 508; EUR 368), U.S. (USD 764 ; EUR 554), and Japanese tourists (USD 719; EUR 521), respectively [28, 29, 30].

France, the U.K., Italy, Singapore, and Germany were the top five destinations with the highest amount of duty-free sales, accounting for 19%, 15%, 15%, 12%, and 12% of the total global tax-free spending, respectively in 2010 [31].

In France, Chinese travelers led the tax-free spending with EUR 298.9 million in 2010 (up 92% year over year), followed by Russians with EUR 143.4 million (up 29.0% year over year) [32].

Other than Chinese tourists, South Koreans spent 97% more on duty-free goods worldwide in 2010, followed by Thai travelers (up 79%) and Brazilians (up 48%) [32].

### Retail Network Expansion in China's Domestic Luxury Market

China's role as the new engine for the global luxury market has been a consensus in the industry. The IMF expects China's GDP per capita will reach US \$8,523 in 2016, up from USD 4,382 in 2010. Goldman Sachs estimated that the number of individuals with income above US\$30,000 would grow by more than 200 million in China from 2010 to 2025, accounting for 30% of the world's growth in this income bracket [8].

Despite the rosy outlook and rapid expansion of retail networks in mainland China recently, the Chinese luxury market is still underpenetrated compared with mature luxury markets. At its current stage, Hangzhou, Shenyang, Chengdu, Dalian, Harbin, and Chongqing are among the top tier-2 cities desired for retail network expansion (see Exhibit 34). The penetration in most other tier-2 cities if targeted is still low at one store per city on average for most brands. There are only a few brands that have entered tier-3 cities. However, based on the China Statistic Bureau, China had 125 cities with populations above 1 million as of the end of 2010. GDP per capita for some cities have surpassed USD 10,000.

The growth of the HNWI population (those with investable assets of at least RMB 10 million) in tier-2 cities is promising too. Based on the 2011 China Private Wealth Report jointly published by Bain & Company and China Merchants Bank, there are five provinces with more than 30,000 HNWIs and 10 provinces with 10,000 to 30,000 HNWIs as of the end of 2010 [16].

**Exhibit 34: The Expansion of Luxury Retail Networks in China**

Category	Brand	# of Stores			# of Cities Entered			# of Stores per city		
		Tier 1	Tier 2	Tier 3	Tier 1	Tier 2	Tier 3	Tier 1	Tier 2	Tier 3
Apparel & Accessories	Alfred Dunhill	33	64	20	4	34	20	8.3	1.9	1.0
Apparel & Accessories	Armani	26	25	0	4	17	0	6.5	1.5	0.0
Apparel & Accessories	Balenciaga	4	6	0	3	4	0	1.3	1.5	0.0
Apparel & Accessories	Boss	21	57	10	4	34	10	5.3	1.7	1.0
Apparel & Accessories	Bottega Veneta	8	14	0	3	13	0	2.7	1.1	0.0
Apparel & Accessories	Burberry	18	41	0	4	29	0	4.5	1.4	0.0
Apparel & Accessories	Celine	7	9	0	4	9	0	1.8	1.0	0.0
Apparel & Accessories	Cerruti	27	58	12	4	32	12	6.8	1.8	1.0
Apparel & Accessories	Chloe	7	4	0	4	4	0	1.8	1.0	0.0
Apparel & Accessories	Ermenegildo Zegna	13	35	0	4	27	0	3.3	1.3	0.0
Apparel & Accessories	Fendi	6	10	0	4	10	0	1.5	1.0	0.0
Apparel & Accessories	Givenchy (Fashion)	7	11	0	2	10	0	3.5	1.1	0.0
Apparel & Accessories	Marc Jacobs	8	6	0	2	6	0	4.0	1.0	0.0
Apparel & Accessories	Ralph Lauren	3	0	0	2	0	0	1.5	0.0	0.0
Apparel & Accessories	Salvatore Ferragamo	18	36	0	4	27	0	4.5	1.3	0.0
Apparel & Accessories	Versace	8	13	0	4	12	0	2.0	1.1	0.0
Apparel & Accessories	Yves Saint Laurent	1	4	0	1	4	0	1.0	1.0	0.0
Footwear	Tod	5	21	0	3	19	0	1.7	1.1	0.0
Fragrance & Cosmetics	Chanel	24	23	0	4	28	2	6.0	0.8	0.0
Jewelry	Bulgari	18	16	0	4	14	0	4.5	1.1	0.0
Jewelry	Cartier	24	53	10	4	29	10	6.0	1.8	1.0

**Exhibit 34: The Expansion of Luxury Retail Networks in China (continued)**

Category	Brand	# of Stores			# of Cities Entered			# of Stores per city		
		Tier 1	Tier 2	Tier 3	Tier 1	Tier 2	Tier 3	Tier 1	Tier 2	Tier 3
Jewelry	Folli Follie	41	62	11	4	30	10	10.3	2.1	1.1
Jewelry	Tiffany	9	9	0	4	9	0	2.3	1.0	0.0
Jewelry	Van Cleef & Arpels	5	1	0	2	1	0	2.5	1.0	0.0
Leather Goods	Coach	21	42	3	4	26	3	5.3	1.6	1.0
Leather Goods	Gucci	12	30	0	3	27	0	4.0	1.1	0.0
Leather Goods	Hermes	10	11	0	4	10	0	2.5	1.1	0.0
Leather Goods	Lancel	9	15	0	3	15	0	3.0	1.0	0.0
Leather Goods	Loewe	5	10	0	2	7	0	2.5	1.4	0.0
Leather Goods	Louis Vuitton	9	32	0	4	26	0	2.3	1.2	0.0
Leather Goods	Prada	8	13	0	4	10	0	2.0	1.3	0.0
Watches	A. Lange & Sohne	3	10	0	2	6	0	1.5	1.7	0.0
Watches	Blancpain	10	25	1	4	17	1	2.5	1.5	1.0
Watches	Breguet	13	19	0	4	17	0	3.3	1.1	0.0
Watches	Girard-Perregaux	13	22	2	2	16	2	6.5	1.4	0.0
Watches	Glashütte Original	12	18	0	2	12	0	6.0	1.5	0.0
Watches	Hublot	4	2	0	2	2	0	2.0	1.0	0.0
Watches	IWC	10	33	2	4	24	2	2.5	1.4	1.0
Watches	Jaeger-LeCoultre	14	20	6	3	18	5	4.7	1.1	1.2
Watches	Jaquet Droz	8	5	0	3	5	0	2.7	1.0	0.0
Watches	Léon Hatot	3	0	0	2	0	0	1.5	0.0	0.0
Watches	Movado	29	95	47	3	26	37	9.7	3.7	1.3
Watches	Omega	53	122	49	4	33	40	13.3	3.7	1.2
Watches	Piaget	14	32	4	4	26	3	3.5	1.2	1.3
Watches	Roger Dubuis	1	0	0	1	0	0	1.0	0.0	0.0
Watches	TAG Heuer	36	68	16	3	27	15	12.0	2.5	0.0
Watches	Vacheron Constantin	8	13	1	4	12	1	2.0	1.1	1.0
Watches	Zenith	20	31	1	2	18	1	10.0	1.7	0.0
Writing Instrument	Montblanc	24	61	6	4	31	5	6.0	2.0	1.2

Source: Company websites. Tier 1: including Beijing, Shanghai, Shenzhen and Guangzhou. Tier 2: including provincial capitals, Chongqing, Tianjin and other important cities such as Ningbo, Suzhou, Wuxi, Changzhou, Wenzhou, Dalian, Qingdao, Xiamen and Sanya. Tier 3: the rest prefectural cities. Stores include boutiques and authorized retailers. For Cartier, stores only selling sunglasses are excluded.



**Exhibit 35: Potential Luxury Markets in China**

Province	City	Population (10,000s)	GDP/Capita (USD)	Employee Avg Wages (USD)	# of cities with population ≥ 1 mil.)	HNWIs (Wealth > RMB 10 mil.)
Beijing	Beijing	1,258	17,028	9,967	1	> 30000
Shanghai	Shanghai	1,412	18,445	10,907	1	> 30000
Jiangsu	Nanjing	632	12,311	7,403	12	> 30000
Zhejiang	Hangzhou	689	13,101	7,401	5	>30000
	Ningbo	574	13,648	6,598		
Guangdong	Guangzhou	806	20,233	8,270	11	>30000
	Shenzhen	260	55,952	7,657		
Shandong	Jinan	604	9,824	5,744	13	[10000,30000]
	Qingdao	764	11,260	5,737		
Liaoning	Shenyang	720	10,581	6,358	4	[10000,30000]
	Dalian	586	13,348	6,770		
Sichuan	Chongqing	3,303	3,641	5,367	1	[10000,30000]
	Chengdu	1,149	7,331	5,858	11	
Fujian	Fuzhou	646	7,338	5,282	4	[10000,30000]
	Xiamen	180	17,348	6,113		
Henan	Zhengzhou	963	6,368	4,974	9	[10000,30000]
Hebei	Shijiazhuang	989	5,218	4,774	4	[10000,30000]
Tianjing	Tianjing	985	14,214	8,037	1	[10000,30000]
Hunan	Changsha	652	10,577	5,818	5	[10000,30000]
Hubei	Wuhan	837	10,095	5,964	5	[10000,30000]
Anhui	Hefei	495	8,283	5,962	8	[10000,30000]

Source: China Statistics Bureau and 2011 China Private Wealth Report [16]. Data as of 2010. RMB/USD=6.5897.

According to Bain's report, the increase of China's domestic luxury purchase in 2011 is more a result of new consumers than new store openings. Based on the selected brands Bain studied, 2009 and 2010 were two years with aggressive expansion in retail networks. Brands continue to expand in 2011, but with a sign of slowing down. Tier 2 and 3 cities remained the important battlefields for global luxury houses [13].

### Other Developing Countries: the Strengthening Appetites of Emerging Markets

Apart from China, some other emerging countries are also fast-growing markets for luxury sales (see Exhibit 36). Specifically, Brazil, Russia, India, and Middle Eastern countries have been the top four listed in Bain's reports. Bain estimated luxury sales in Brazil and the Middle East are likely to grow at double-digit rates in 2010 to 2013 [1, 4].

Other countries, such as South Africa, Turkey, Malaysia, Thailand, Indonesia, Sri Lanka, and Vietnam are also showing steady growth in GDP per capita (see Exhibit 37). These countries could be emerging forces for the future growth of the global luxury market.

**Exhibit 36: Economic Status of Selected Developed and Emerging Markets**

Country	2010 Luxury Sales (EUR bil.)	2010 GDP per capita (Current, USD)	Gross Saving (% of GDP, IMF, 2010)	Household Consumption (2009, UN, %GDP)	2010 Urbanization Ratio (%)	Cities w/ Pop. > 1 mil. (2009)	Cities w/ Pop. > 5 mil. (2009)	Cities w/ Pop. > 10 mil. (2009)
United States	48.1	47,199	12.5%	72.4%	82.3	9	1	0
Japan	18.1	42,831	23.8%	58.3%	66.8	12	1	1
Italy	17.5	33,917	16.9%	59.9%	68.4	2	0	0
France	13.3	39,460	18.6%	58.3%	77.8	1	0	0
China	9.6	4,428	53.4%	36.8%	44.9	125	9	2
United Kingdom	9.0	36,144	11.8%	65.3%	90.1	4	1	0
Germany	8.3	40,152	23.0%	58.9%	73.8	3	0	0
South Korea	6.3	20,757	31.9%	54.1%	81.9	7	1	1
Russia	4.7	10,440	25.1%	55.0%	72.8	11	1	1
Hong Kong	4.8	31,758	29.9%	61.5%	100.0	1	1	0
Brazil	1.9	10,710	17.0%	62.8%	86.5	14	2	1
India	0.8*	1,475	34.2%	57.3%	30.1	26	2	1
UAE		39,625	26.4%	36.8%	78.0	1	0	0
Saudi Arabia	5.3**	15,836	37.8%	27.0%	83.6	3	0	0

Source: Bain & Company, World Bank and UN data. GDP per capita (current, US\$) data are from World Bank and is defined as gross domestic product divided by midyear population. The Household Consumption data for UAE and Saudi Arabia are as of 2007 and 2008 respectively. Population based on UN data and Chinese Statistic Bureau. \* Estimated. \*\* The data for Middle East.

**Exhibit 37: GDP Per Capita and Growth Rates**

Country	2010 GDP per capita (Current, US\$)	2016F GDP per capita (Current, US\$)	1980-1990 CAGR	1990-2000 CAGR	2000-2010 CAGR	2011E growth rate	2012-2016F CAGR
Switzerland	67,464	94,763	1.6%	0.4%	0.8%	1.5%	1.1%
United States	47,199	55,622	2.3%	2.2%	0.6%	0.6%	1.9%
Japan	42,831	53,615	4.1%	0.9%	0.6%	-0.7%	2.1%
Singapore	41,122	59,110	5.5%	4.2%	3.3%	3.5%	2.4%
Germany	40,152	48,731	2.0%	1.5%	1.0%	2.9%	1.6%
UAE	39,625	74,727	-4.6%	0.0%	-0.1%	0.3%	1.1%
France	39,460	50,497	1.9%	1.5%	0.5%	1.2%	1.4%
Kuwait	37,009	52,968	-6.9%	2.8%	0.4%	2.9%	1.9%
United Kingdom	36,144	49,777	2.6%	2.2%	0.9%	0.5%	1.7%
Italy	33,917	40,100	2.3%	1.5%	-0.3%	0.2%	0.4%
Hong Kong	31,758	47,521	5.4%	2.3%	3.4%	5.1%	3.5%
South Korea	20,757	33,948	8.4%	5.6%	3.7%	3.6%	3.8%
Taiwan	18,558	31,385	6.2%	5.3%	3.5%	4.3%	4.0%
Saudi Arabia	15,836	23,575	-5.4%	-0.3%	0.2%	4.2%	2.1%
Brazil	10,710	16,635	-0.6%	1.0%	2.3%	2.9%	3.2%
Russia	10,440	22,066	N/A	N/A	5.0%	4.6%	4.3%
Turkey	10,094	14,839	2.9%	1.3%	3.1%	5.4%	2.4%
Malaysia	8,373	11,573	3.1%	4.4%	2.6%	3.4%	3.3%
South Africa	7,275	9,973	-0.8%	-0.1%	2.3%	2.2%	2.5%
Thailand	4,608	8,125	5.8%	3.4%	4.0%	2.9%	4.3%
China	4,428	8,523	7.7%	9.3%	9.8%	8.9%	8.8%
Indonesia	2,946	5,429	3.4%	2.6%	3.7%	5.1%	5.6%
Egypt	2,698	3,901	2.7%	2.2%	2.8%	-0.8%	2.8%
Sri Lanka	2,375	4,356	3.1%	3.9%	4.1%	6.2%	6.1%
Philippines	2,140	2,907	-0.7%	0.6%	2.7%	2.7%	2.9%
India	1,475	2,349	3.4%	3.5%	5.8%	6.4%	6.6%
Vietnam	1,224	2,217	3.8%	5.8%	5.9%	4.5%	5.8%
Pakistan	1,019	1,566	3.3%	2.0%	2.5%	0.5%	2.6%

Source: World Bank & IMF. 2010 GDP per capita (Current, USD) based on World Bank Data. 2016F GDP per capita (Current, USD) based on IMF data as of September 2011. CAGRs are calculated based on IMF published GDP per capita in constant national currency.

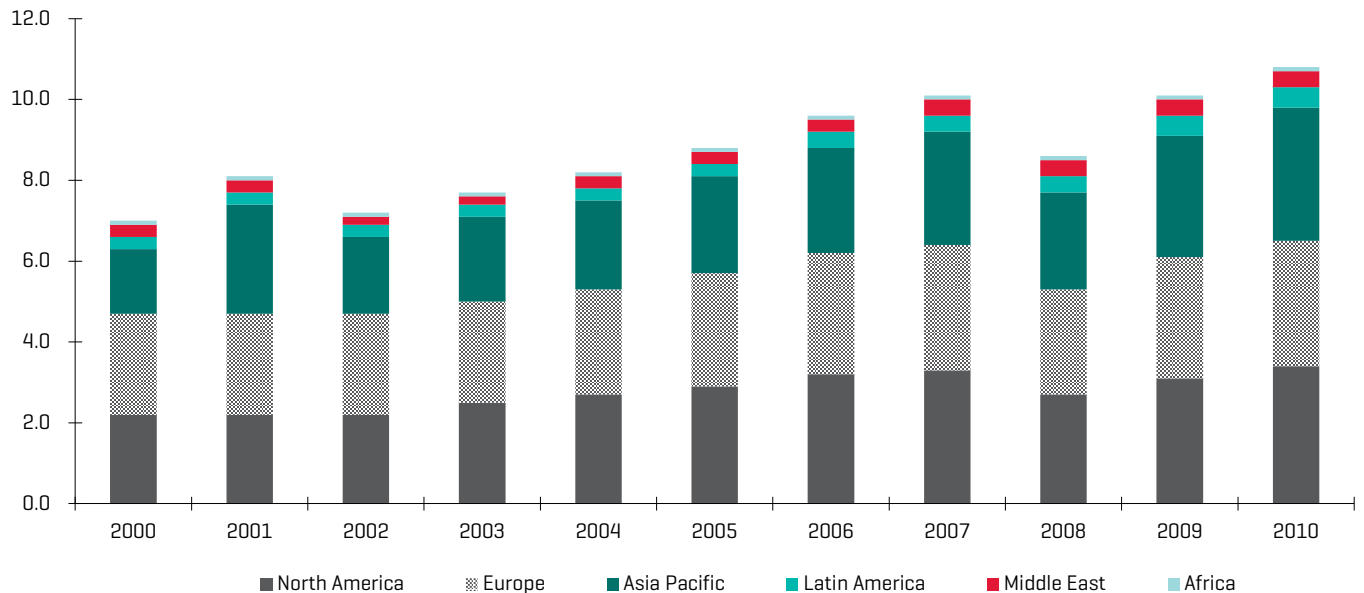
The newly released 2011 World Wealth Report showed 10 regions with strongest growth in HNWI's in 2010. They are: Hong Kong (up 33.3%), Vietnam (33.1%), Poland (28.7%), Sri Lanka (27.1%), Sweden (26.1%), Kuwait (25%), Bahrain (24%), Indonesia (23.8%), Singapore (21.3%) and India (20.8%). In comparison, China and Brazil only registered 12.0% and 5.9% growth in HNWI's in 2010 [9].

Geographically, Asia-Pacific is a very interesting region, comprising Japan (the old engine), China (the new engine) and other emerging forces that could drive future growth of global luxury retails. As disclosed in the World Wealth Reports, the number of worldwide HNWI's increased from 7.0 million in 2000 to 10.9 million in 2010, with Asia-Pacific accounting for approximately 44% of the growth, followed by North America (31%) (see Exhibit 38). HNWI wealth rose from USD 25.5 trillion to USD 42.7 trillion in the same

period, with Asia-Pacific again accounting for about 35% of the change, followed by North America and Latin America (24% each) (see Exhibit 39) [9].

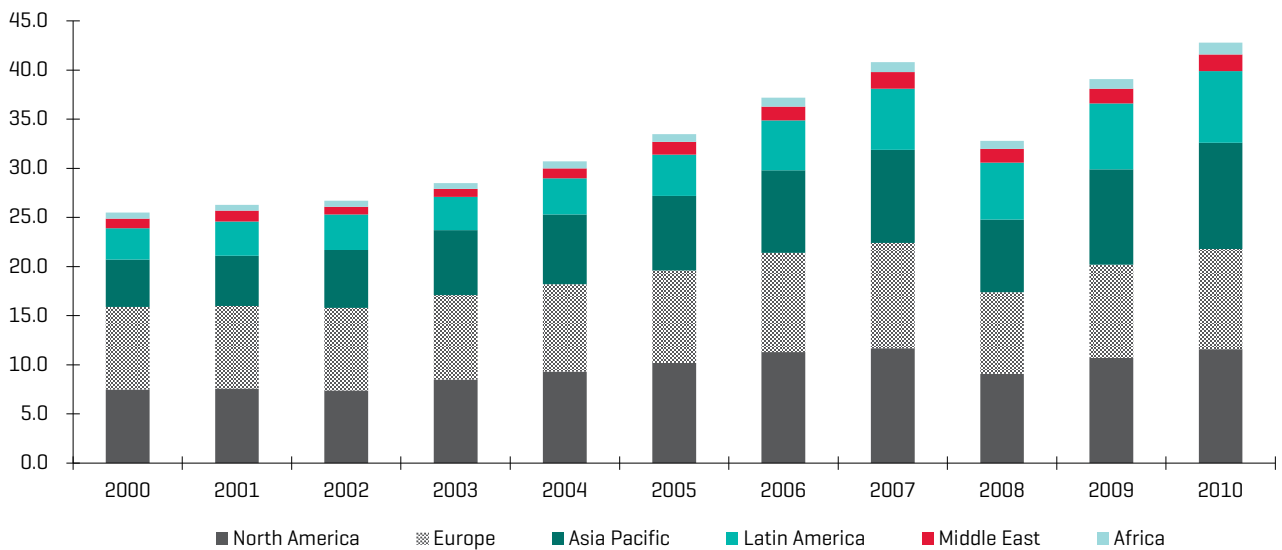
Further, Asia-Pacific is the only region with double-digit growth in both HNWI's (10.0%) and wealth (12.1%) in 2010. As of the end of 2010, Asia-Pacific represented 30.3% and 25.3% of worldwide HNWI's and wealth, respectively, up from 23% and 19% in 2000 [9].

**Exhibit 38: HNWI's by Region (mil.)**



Source: World Wealth Report. HNWI's are defined as those having investable assets of US\$1 million or more, excluding primary residence, collectibles, consumables, and consumer durables.

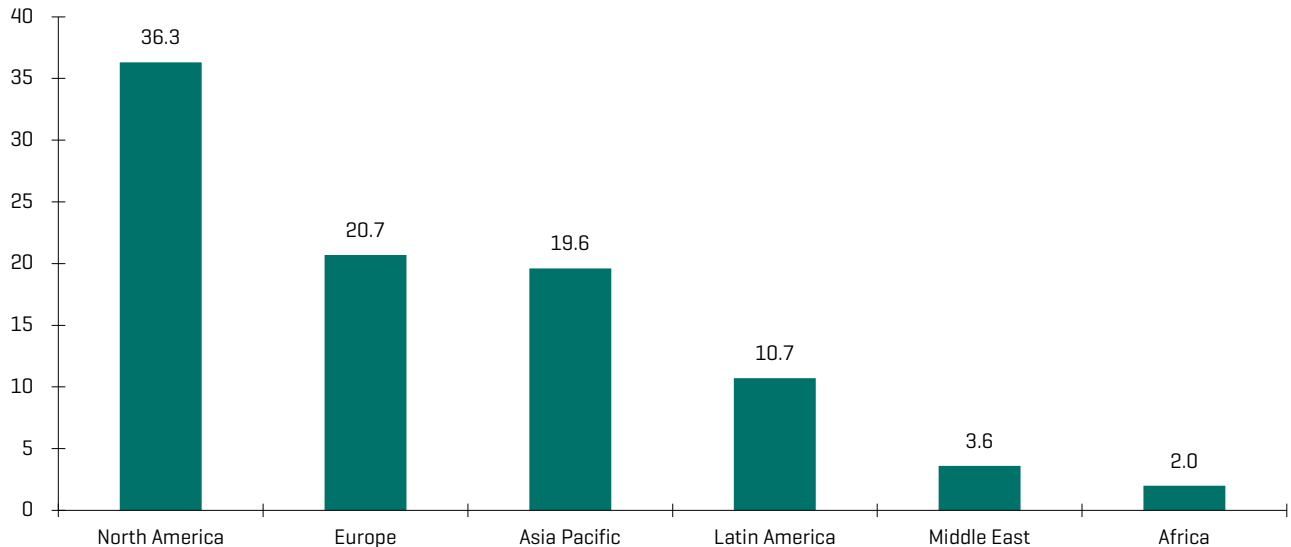
**Exhibit 39: Wealth of HNWI's by Region (USD tril.)**



Source: World Wealth Report. HNWI's are defined as those having investable assets of US\$1 million or more, excluding primary residence, collectibles, consumables, and consumer durables.

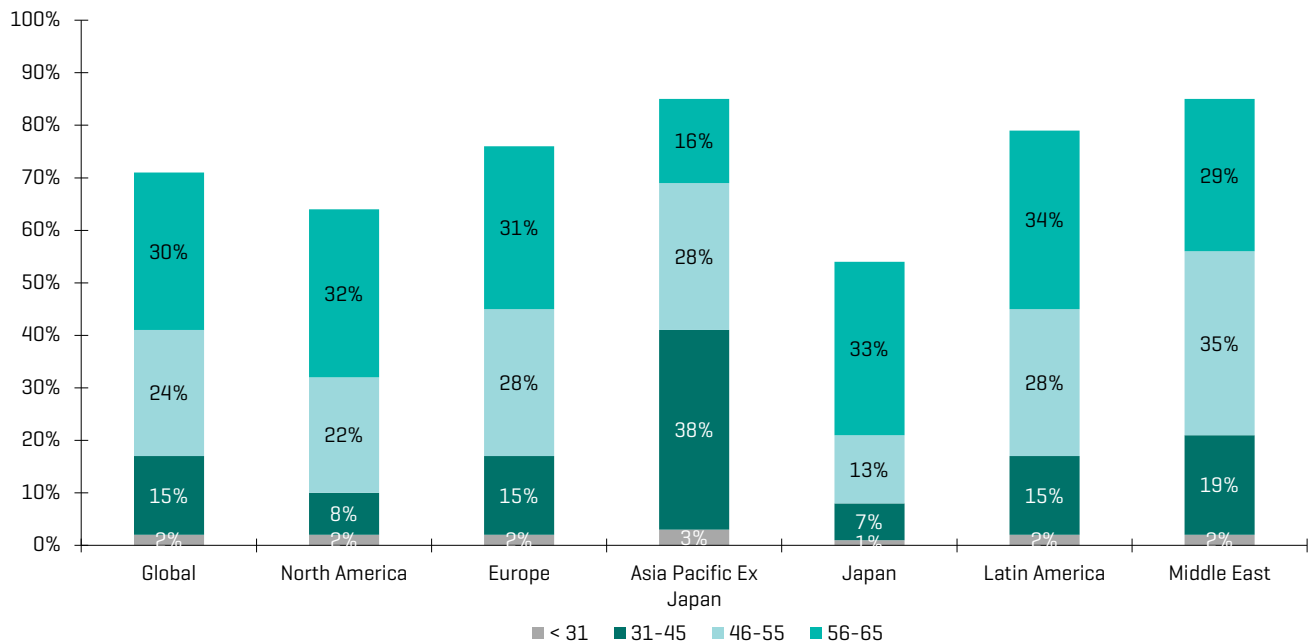
Asia-Pacific was also the third-largest base for Ultra HNWI based on 2010 World Wealth Report (see Exhibit 40). Latin America had a disproportionately higher number of Ultra HNWIs compared to its HNWI base [9].

**Exhibit 40: Ultra HNWIs by Region: 2009**



Source: World Wealth Reports. Data in thousands. Ultra-HNWIs are defined as those having investable assets of USD 30 million or more, excluding primary residence, collectibles, consumables, and consumer durables.

**Exhibit 41: HNWIs by Age Groups: 2010**



Source: World Wealth Reports. Data as of the end of 2010.

The age demographic breakdown of HNWIs in different regions displays an interesting pattern (see Exhibit 41). Asia-Pacific excluding Japan has become the region with much younger HNWIs than other regions, which could indicate more sustained demand for luxury goods from the region. Japan, in

comparison, is the country with a higher percentage of older HNWIs, which lends support to the decline of Japanese luxury market due to the retiring consumer base [9].

<b>Exhibit 42: HNWIs by Country</b>							
<b>Country/Region</b>	<b>HNWIs (000s)</b>				<b>Year-Over-Year Growth Rate</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
United States	3,019	2,460	2,886	3,104	-18.5%	16.5%	8.3%
Japan	1,517	1,366	1,650	1,739	-9.9%	20.8%	5.4%
Germany	833	810	862	924	-2.8%	6.4%	7.2%
Mainland China	413	365	477	535	-11.8%	31.0%	12.0%
United Kingdom	491	362	448	454	-26.3%	23.8%	1.4%
France	396	346	383	396	-12.6%	10.8%	3.4%
Canada	281	213	251	282	-24.2%	17.9%	12.3%
Switzerland	212	185	222	243	-12.7%	19.7%	9.7%
Australia	169	129	174	193	-23.4%	34.4%	11.1%
Italy	207	164	179	170	-20.8%	9.2%	-4.7%
Brazil	143	131	147	155	-8.4%	11.9%	5.9%
India	123	84	127	153	-31.6%	50.9%	20.8%
South Korea	118	105	127	146	-11.0%	21.2%	15.5%
Hong Kong	96	37	76	101	-61.3%	104.4%	33.3%
Taiwan	71	58	83	94	-18.0%	42.3%	13.7%
Singapore	78	61	82	99	-21.6%	32.7%	21.3%
Indonesia	24	19	24	30	-20.4%	28.3%	23.8%
Thailand	44	42	50	58	-4.5%	19.6%	16.0%
World	10,100	8,600	10,000	10,900	-14.9%	17.1%	8.3%

Source: World Wealth Reports.

## Introducing the S&P Global Luxury Index

In response to the rising need to gauge the performance of the global luxury industry, S&P Dow Jones Indices launched the S&P Global Luxury Index in August 2011. The index comprises 80 of the largest publicly traded producers and distributors of luxury goods and services that meet specific requirements.

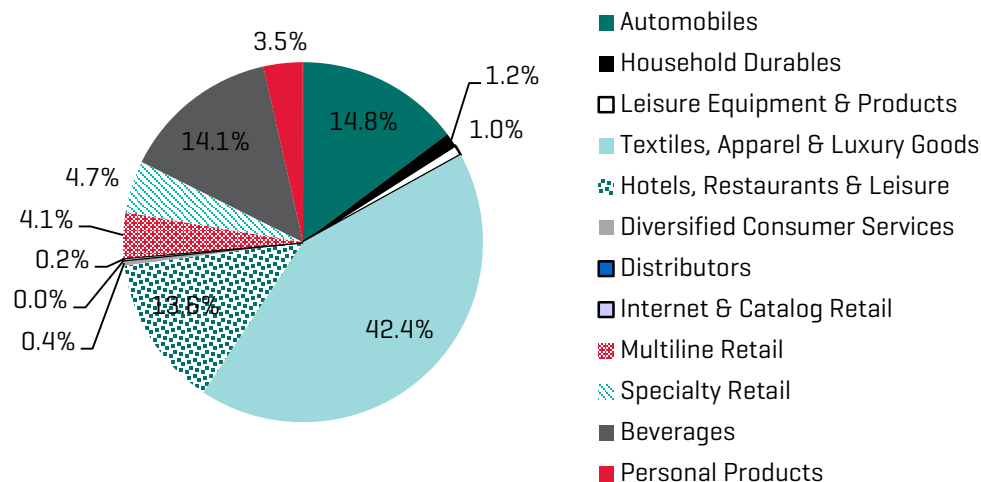
To ensure investability, constituents must have a developed market listing that meets a minimum three-month average daily value traded of at least USD 1 million as of the reference date.

The index is based on a modified capitalization weighting scheme that ensures stock level diversification. The index is rebalanced annually on the last business day of July after market close. The reference date is the last business day of June.

### Sector and Country Breakdown

As of March 30, 2012, textiles, apparel, and luxury goods companies represented 42.4% of the index, followed by automobiles, beverages, and hotels, restaurants and leisure companies, which accounted for 14.8%, 14.1% and 13.6% of the index, respectively (see Exhibit 43).

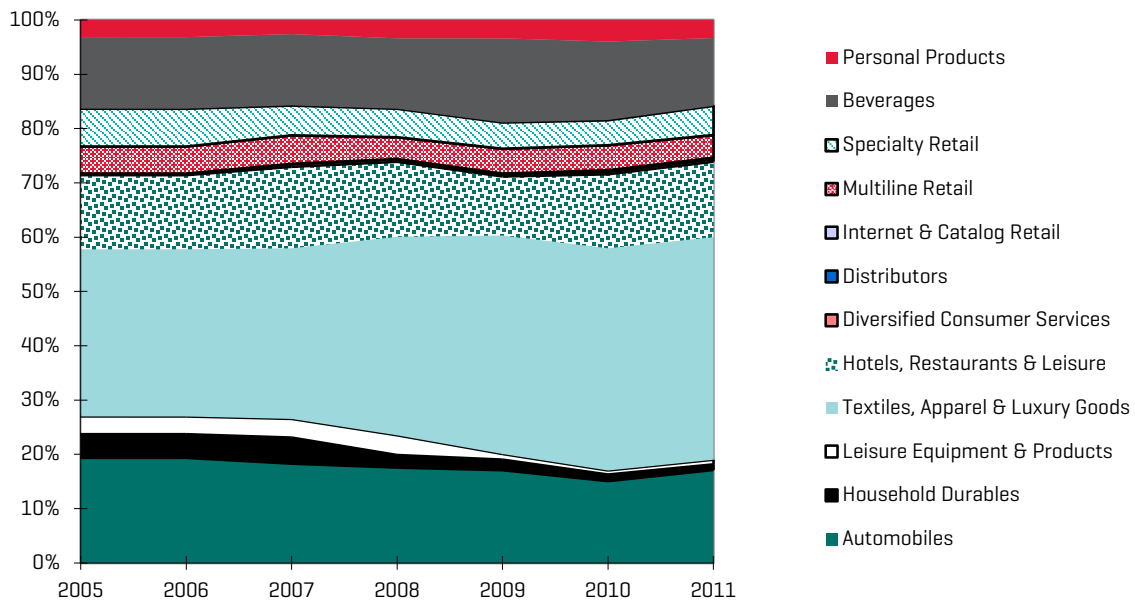
**Exhibit 43: Sector Breakdown at Industry Level**



Source: S&P Dow Jones Indices. Data as of March 30, 2012.

Historically, textiles, apparel and luxury goods represented 28% to 43% of the index (see Exhibit 44). The index weights of automobiles, household durables, and leisure equipment and products decreased gradually.

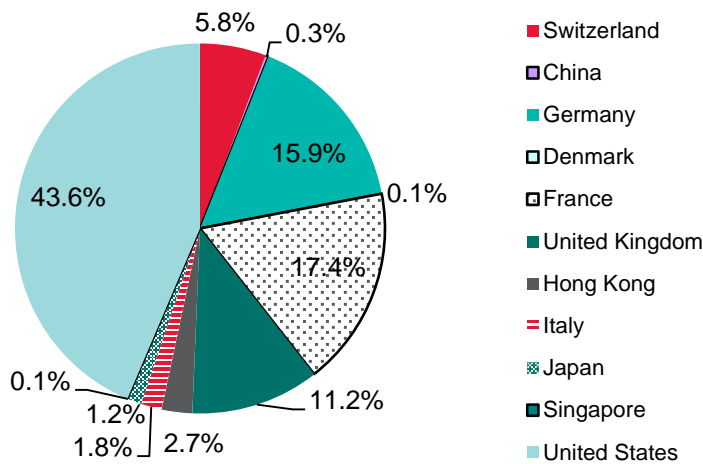
**Exhibit 44: Sector Breakdown at Industry Level: July 2005 to July 2011**



Source: S&P Dow Jones Indices. Data as of index rebalancings and based on back-testing.

The U.S. represented the largest country share (43.6%) of the index as of March 30, 2012 (see Exhibit 45). France, Germany, and the U.K. followed with weights of 17.4%, 15.9%, and 11.2%, respectively.

**Exhibit 45: Country Breakdown**



Source: S&P Dow Jones Indices. Data as of March 30, 2012. Most of index constituents are domiciled in developed regions, except for Hengdeli Holdings, Ports Design and PCD Stores (Group) Ltd., which are defined as China domiciled though listed in Hong Kong Stock Exchange, which is considered a developed market.

Although Asia-Pacific only represents 4.2% of the index by domicile country, compared to the U.S. (43.6%) and Europe (52.2%), more than half of the index constituents have significant exposure or substantial growth in Asia-Pacific or other emerging areas.

For example, premium automobile maker Bayer Motoren Werke AG (BMW) achieved 37.8% revenue growth in China in 2011. Sparkle Roll Group Ltd., a distributor of luxury automobiles (Rolls-Royce,



Bentley and Lamborghini), watches, and jewelry in mainland China recorded 228.9% growth in automobile sales for the fiscal year ended March 31, 2011. Porsche Zwischenholding GmbH group also reported sharply increased sales of 67.2% in China, according to its annual report.

In fine art collection, China has become an increasingly important contributor to Sotheby's financial results, representing 18.8% of its total revenue in 2011, up by 40% following 123% growth in 2010.

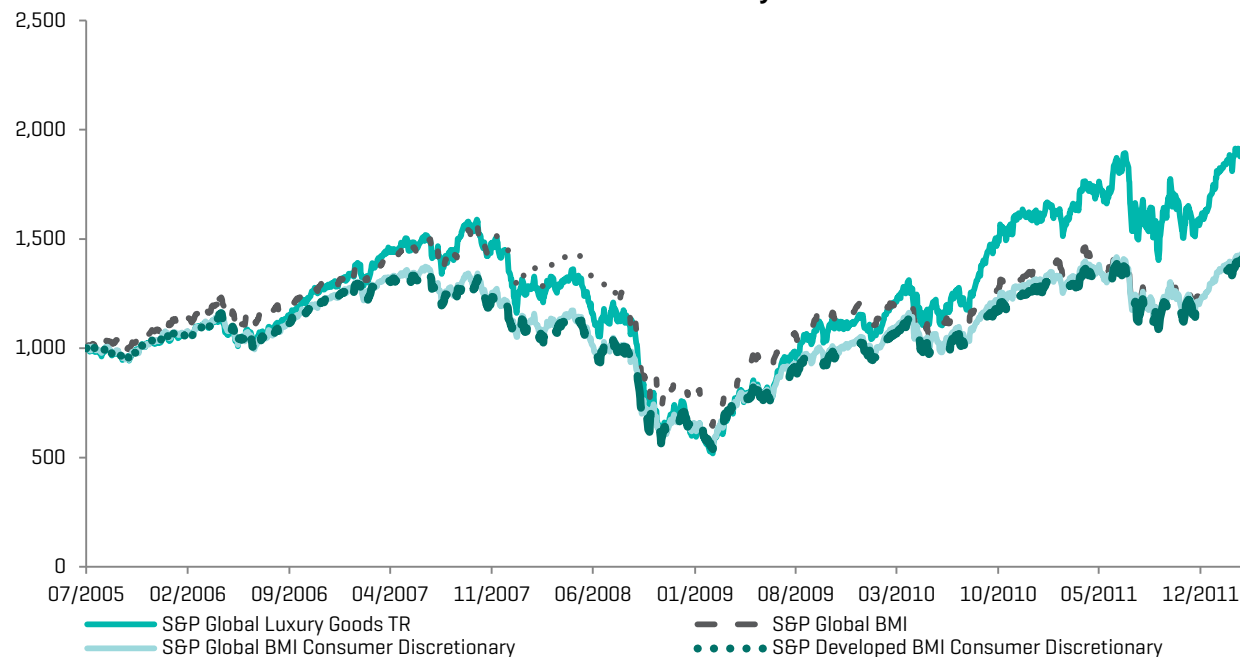
In the category of hard luxury items (watches & jewelry), Richemont recorded extraordinary sale growth in Hong Kong and China (44.9%) and other Asian markets (52.7%) for the fiscal year ended March 31, 2011. Similarly, Swatch enjoyed 26.1% revenue growth in Greater China in 2011. In the same year, Tiffany & Co. had substantial revenue growth (36.1%) from Asia-Pacific excluding Japan. Chow Sang Sang, Luk Fook, Hengdeli and Emperor Watch & Jewellery all achieved high double-digit growth in Mainland China with a year-over-year growth rate of 64.1%, 63.9%, 42.4%, and 34.5%, respectively, in 2011.

For other luxury categories such as apparel, footwear, and accessories, Burberry Group experienced 61.7% growth in Asia-Pacific for the fiscal year ended March 31, 2011. Prada SpA, PPR, and Hermes, on the other hand, recorded 35.2%, 27.3%, and 28.1% revenue growth, respectively, in Asia-Pacific excluding Japan in 2011. In the same year, Christian Dior and LVMH-Moët Vuitton delivered 29.8% and 28.8% growth, respectively, in Asia excluding Japan.

### Risk and Return Profile

The S&P Global Luxury Index outperformed the S&P Developed BMI Consumer Discretionary in most years since July 2005, especially those after the financial crisis (see Exhibit 46).

**Exhibit 46: Historical Performance of the S&P Global Luxury Index**



Source: S&P Dow Jones Indices. Data as of March 30, 2012. TR levels in USD. Charts are provided for illustrative purposes. This chart may reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

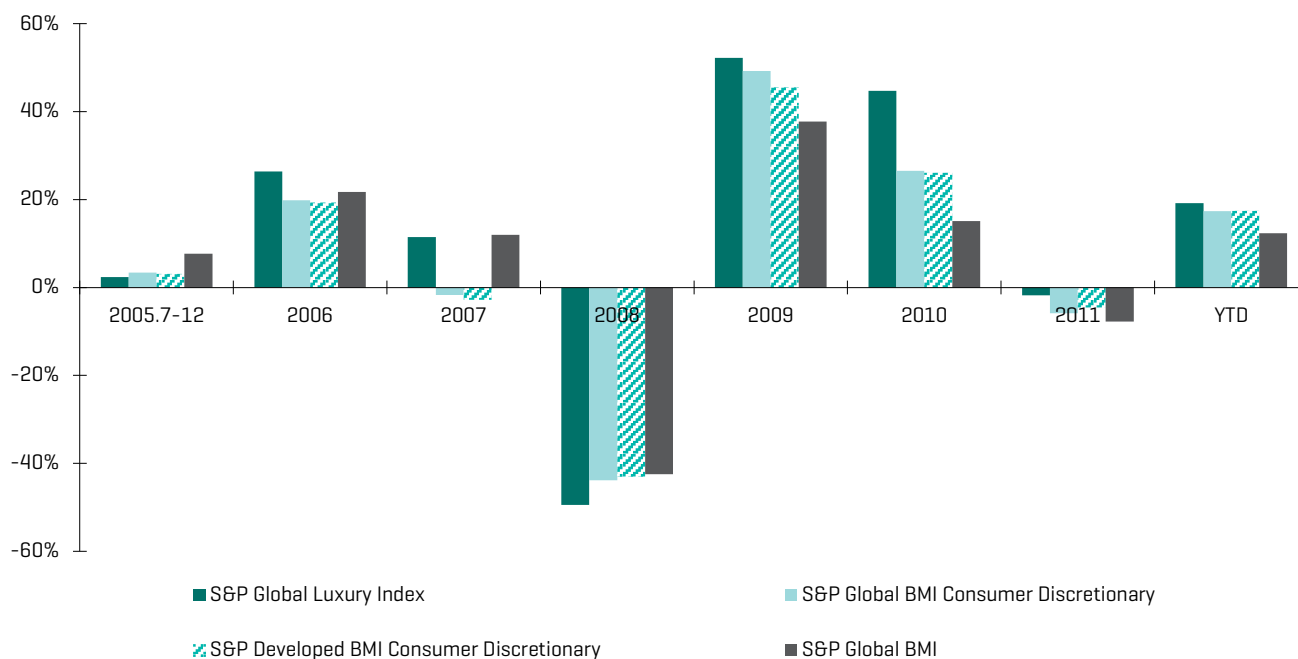
The annualized return of the S&P Global Luxury Index was 9.3% for the six years ended March 30, 2012, which is better than the benchmarks in the same period (see Exhibit 47). However, the index was more volatile than those benchmarks.

**Exhibit 47: Risk and Return Profile**

Risk & Return	S&P Global Luxury Index	S&P Global BMI Consumer Discretionary	S&P Developed BMI Consumer Discretionary	S&P Global BMI
Return (p.a.)				
1 Yr	16.3%	8.2%	9.0%	-0.9%
2 Yrs	24.5%	14.2%	14.6%	7.3%
3 Yrs	44.8%	30.6%	30.1%	22.4%
6 Yrs	9.3%	4.4%	4.1%	3.0%
Since Inception	9.9%	5.5%	5.2%	5.1%
Standard deviation (p.a.)				
1 Yr	30.6%	21.5%	21.0%	20.2%
2 Yrs	27.4%	20.5%	20.3%	19.4%
3 Yrs	27.8%	21.2%	21.0%	19.3%
6 Yrs	28.2%	21.7%	21.4%	20.3%
Since Inception	26.9%	20.8%	20.5%	19.4%

Source: S&P Dow Jones Indices. Data as of March 30, 2012. Charts are provided for illustrative purposes. This chart may reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

The S&P Global Luxury Index suffered more in 2008 compared to the benchmarks, but outperformed after the financial crisis (see Exhibit 48).

**Exhibit 48: Historical Annual Returns**

Source: S&P Dow Jones Indices. Data as of March 30, 2012. Charts are provided for illustrative purposes. This chart may reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

## Performance Contribution

From July 29, 2005, to March 30, 2012, apparel, accessories and luxury goods, footwear, automobile manufacturers, distillers and vintners, department stores, and specialty stores were the major contributors to the index's performance (see Exhibits 49 and 50). Among all the sub-industries, specialized consumer services (represented by Sotheby's); footwear; apparel, accessories and luxury goods; distillers and vintners; and casinos and gaming were the segments with the highest average stock returns.

**Exhibit 49: Performance Contribution by Sub-Industries**

GICS	Sub-Industry	August 2005 - March 2012			
		Average Weight	Average Stock Total Return	Total Return	Contribution to Index TR
25102010	Automobile Manufacturers	14.6%	15.1%	53.9%	7.9%
25102020	Motorcycle Manufacturers	2.5%	6.1%	6.1%	-0.6%
25201010	Consumer Electronics	1.9%	-31.8%	1.3%	-0.1%
25201020	Home Furnishings	0.2%	2.3%	29.7%	0.8%
25201030	Homebuilding	0.7%	-56.7%	-56.7%	-1.6%
25202010	Leisure Products	1.0%	-3.4%	-3.0%	-1.2%
25202020	Photographic Products	1.1%	49.5%	130.8%	-0.7%
25203010	Apparel, Accessories & Luxury Goods	29.2%	148.1%	169.7%	52.3%
25203020	Footwear	6.7%	188.4%	188.0%	11.5%
25301010	Casinos & Gaming	4.9%	124.2%	110.8%	0.8%
25301020	Hotels, Resorts & Cruise Lines	8.7%	4.6%	-13.0%	0.2%
25301030	Leisure Facilities	0.2%	-31.1%	-41.6%	-0.2%
25302020	Specialized Consumer Services	0.4%	189.2%	189.2%	0.6%
25501010	Distributors	0.0%	-8.7%	-8.7%	0.0%
25502020	Internet Retail	0.1%	34.3%	5.3%	0.1%
25503010	Department Stores	4.5%	15.7%	63.0%	6.2%
25504010	Apparel Retail	2.8%	40.1%	32.5%	0.6%
25504040	Specialty Stores	2.6%	64.0%	83.2%	2.9%
25504060	Home Furnishing Retail	0.7%	-3.1%	-3.1%	0.0%
30201020	Distillers & Vintners	13.7%	125.8%	111.1%	7.2%
30302010	Personal Products	3.3%	92.4%	140.6%	0.4%
Total	S&P Global Luxury Index	100.0%	76.9%	87.2%	87.2%

Source: S&P Dow Jones Indices; Factset. Data from August 2005 – March 2012. This chart may reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

**Exhibit 50: Performance Attribution by Periods**

GICS	Sub-Industry	August 2005-October 2007				November 2007-February 2009				March 2009-March 2012			
		Avg Weight	Avg Stock TR	Total Return	Contribution to Index TR	Avg Weight	Avg Stock TR	Total Return	Contribution to Index TR	Avg Weight	Avg Stock TR	Total Return	Contribution to Index TR
25102010	Automobile Manufacturers	15.5%	88.1%	118.8%	14.6%	14.9%	-69.9%	-75.8%	-12.9%	13.7%	137.9%	190.8%	34.2%
25102020	Motorcycle Manufacturers	3.9%	0.2%	0.2%	0.8%	2.1%	-79.4%	-79.4%	-2.1%	1.7%	412.9%	412.9%	5.4%
25201010	Consumer Electronics	3.4%	126.4%	115.1%	3.4%	2.1%	-86.3%	-85.9%	-2.0%	0.8%	167.7%	235.1%	2.6%
25201020	Home Furnishings	0.2%	110.9%	47.5%	0.2%	0.2%	-88.2%	-82.0%	-0.2%	0.2%	321.0%	388.0%	1.4%
25201030	Homebuilding	0.9%	-58.7%	-58.7%	-1.4%	0.8%	-30.8%	-30.8%	-0.2%	0.7%	51.4%	51.4%	0.8%
25202010	Leisure Products	1.7%	-1.8%	-22.0%	-0.7%	0.9%	-70.0%	-73.8%	-0.7%	0.6%	319.5%	375.8%	2.0%
25202020	Photographic Products	1.5%	163.6%	180.7%	1.8%	2.2%	-72.1%	-69.9%	-1.9%	0.3%	100.2%	173.5%	3.5%
25203010	Apparel, Accessories & Luxury Goods	25.3%	80.3%	57.4%	15.0%	27.4%	-64.8%	-57.3%	-14.8%	32.9%	334.7%	301.4%	84.3%
25203020	Footwear	4.5%	100.7%	68.1%	2.7%	7.2%	-48.5%	-38.9%	-2.5%	8.1%	243.1%	180.7%	16.8%
25301010	Casinos & Gaming	4.2%	122.4%	134.2%	5.3%	5.4%	-76.5%	-88.6%	-6.2%	5.1%	671.6%	686.3%	15.3%
25301020	Hotels, Resorts & Cruise Lines	10.7%	47.5%	10.9%	1.3%	7.9%	-75.9%	-68.5%	-5.3%	7.7%	157.2%	149.3%	16.5%
25301030	Leisure Facilities	0.1%	-11.2%	-24.3%	0.0%	0.2%	-48.3%	-48.2%	-0.1%	0.2%	53.0%	48.9%	0.2%
25302020	Specialized Consumer Services	0.3%	266.4%	266.4%	0.5%	0.4%	-87.2%	-87.2%	-0.4%	0.5%	514.6%	514.6%	1.4%
25501010	Distributors	0.0%	N/A	0.0%	0.0%	0.0%	N/A	0.0%	0.0%	0.0%	-8.7%	-8.7%	0.0%
25502020	Internet Retail	0.0%	N/A	0.0%	0.0%	0.0%	N/A	0.0%	0.0%	0.2%	34.3%	5.3%	0.1%
25503010	Department Stores	5.0%	57.8%	52.6%	3.1%	4.2%	-58.5%	-67.7%	-2.4%	4.4%	166.5%	230.6%	10.8%
25504010	Apparel Retail	4.1%	9.4%	7.1%	0.8%	2.8%	-71.0%	-68.5%	-1.8%	1.9%	183.8%	292.9%	5.8%
25504040	Specialty Stores	2.2%	20.6%	34.3%	0.8%	2.1%	-74.1%	-69.8%	-1.7%	3.0%	315.3%	351.7%	7.8%
25504060	Home Furnishing Retail	1.0%	-27.2%	-27.2%	-0.5%	0.5%	-71.0%	-71.0%	-0.3%	0.6%	359.4%	359.4%	1.6%
30201020	Distillers & Vintners	12.8%	68.2%	74.4%	9.5%	15.2%	-48.0%	-48.1%	-7.0%	13.8%	188.6%	133.2%	19.8%
30302010	Personal Products	2.8%	30.7%	45.5%	1.3%	3.5%	-56.7%	-43.0%	-2.2%	3.6%	307.4%	189.9%	6.3%
Total	S&P Global Luxury Index	100.0%	66.1%	58.5%	58.5%	100.0%	-66.9%	-64.9%	-64.9%	100.0%	283.2%	236.5%	236.5%

Source: S&P Dow Jones Indices; Factset. This chart may reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

After the financial crisis, casinos and gaming, specialized consumer services, motorcycle manufacturers, home furnishing retail, apparel, accessories and luxury goods, home furnishings, leisure products, specialty stores and personal products were the segments with the strongest growth (see Exhibit 50).

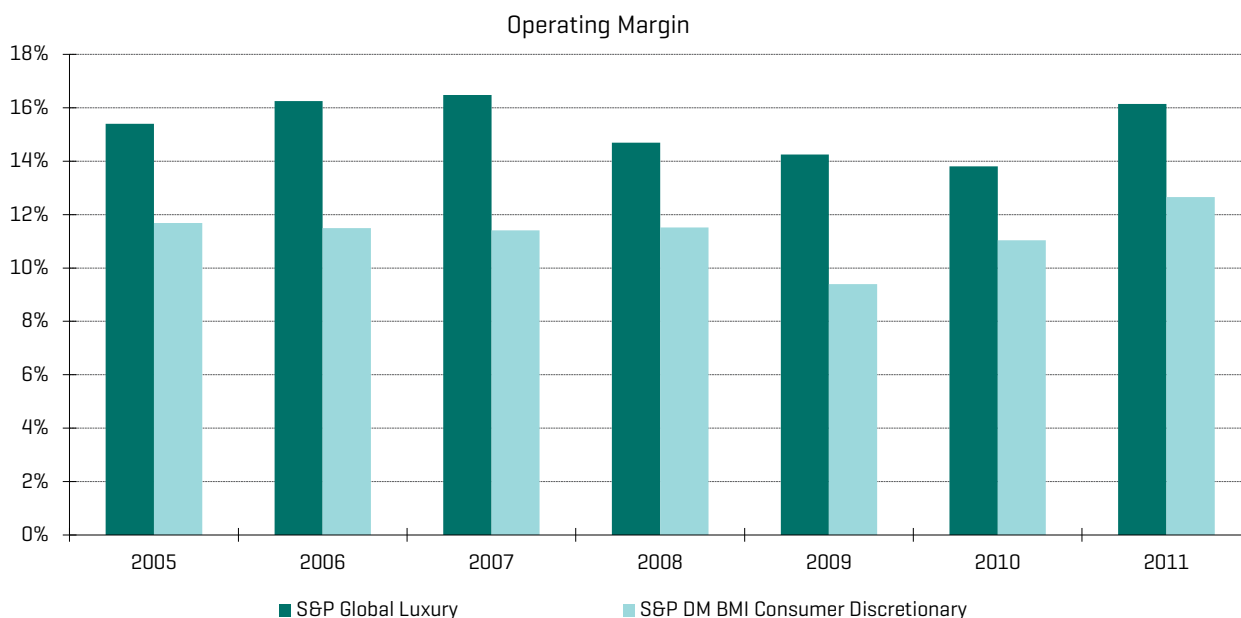
**Exhibit 51: Average Stock Returns by Industry (GSCI Level III)**

GICS	Industry	August 2005- October 2007	November 2007- February 2009	March 2009- March 2012	August 2005- March 2012
251020	Automobiles	73.5%	-71.5%	183.7%	13.6%
252010	Household Durables	71.8%	-77.7%	199.4%	-24.6%
252020	Leisure Equipment & Products	31.3%	-70.6%	246.4%	7.2%
252030	Textiles, Apparel & Luxury Goods	84.5%	-61.6%	318.9%	155.4%
253010	Hotels, Restaurants & Leisure	74.6%	-72.8%	378.3%	54.8%
253020	Diversified Consumer Services	266.4%	-87.2%	514.6%	189.2%
255010	Distributors	N/A	N/A	-8.7%	-8.7%
255020	Internet & Catalog Retail	N/A	N/A	34.3%	34.3%
255030	Multiline Retail	57.8%	-58.5%	166.5%	15.7%
255040	Specialty Retail	11.5%	-72.7%	268.1%	49.6%
302010	Beverages	68.2%	-48.0%	188.6%	125.8%
303020	Personal Products	30.7%	-56.7%	307.4%	92.4%
Total	S&P Global Luxury Index	66.1%	-66.9%	283.2%	76.9%

Source: S&P Dow Jones Indices; Factset. This chart may reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

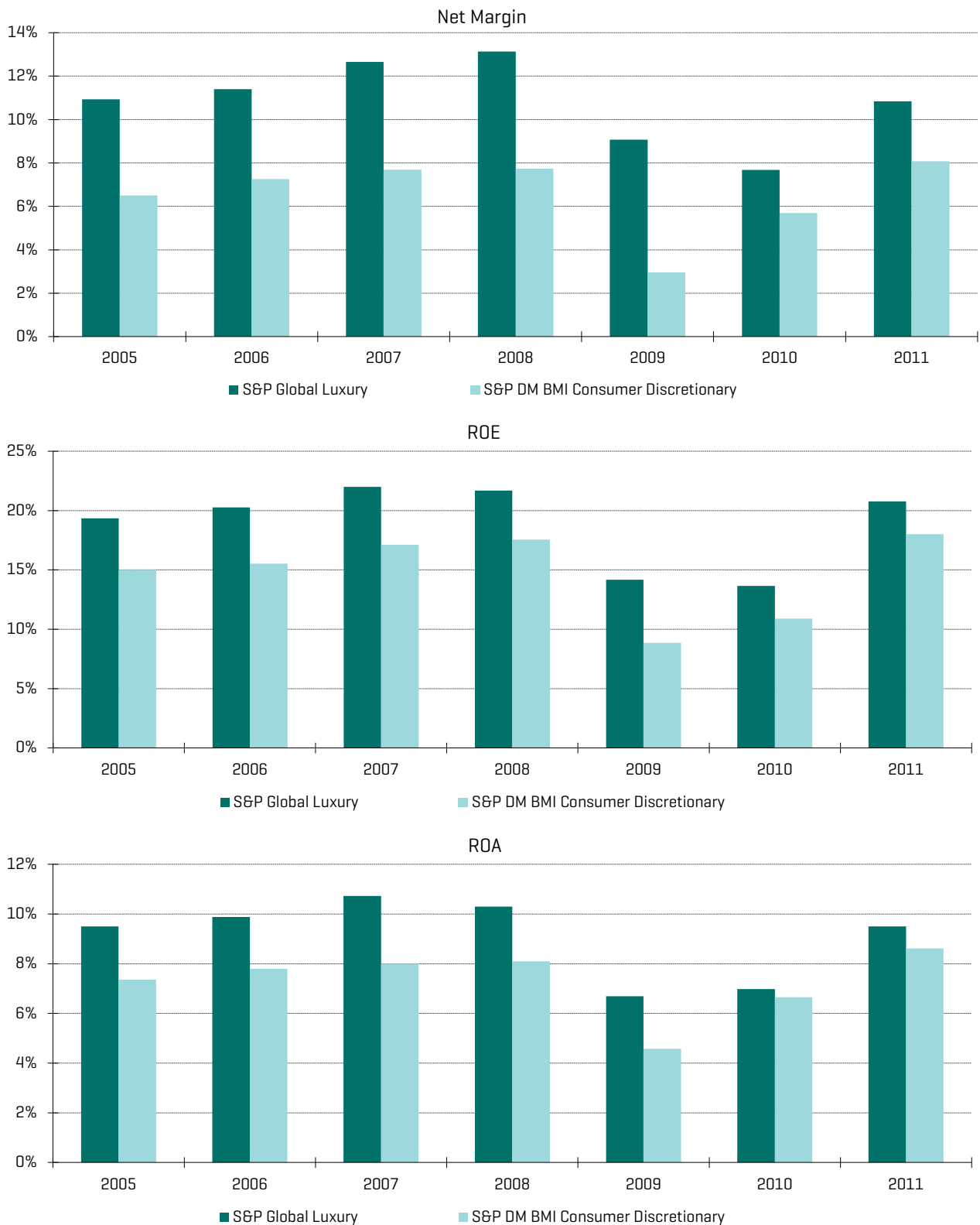
**Fundamental Attributes**

Compared to the S&P Developed BMI Consumer Discretionary, the S&P Global Luxury Index exhibited higher profit margins since 2005 (see Exhibit 52).

**Exhibit 52: Profitability of the S&P Global Luxury Index**

Source: S&P Dow Jones Indices; Factset. Data as of index rebalancings. Constituent level data are capitalization weighted to calculate the index fundamentals. These charts may reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

**Exhibit 52: Profitability of the S&P Global Luxury Index (continued)**



Source: S&P Dow Jones Indices; Factset. Data as of index rebalancings. Constituent level data are capitalization weighted to calculate the index fundamentals. These charts may reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

At the industry level, companies in diversified consumer services; beverage; textiles, apparel and luxury goods; and hotels, restaurants and leisure generated higher averaged profit margins as of March 30, 2012 (see Exhibit 53).

### Exhibit 53: Fundamentals by Industry

GICS	Industry	Gross Margin	Operating Margin	Net Margin	ROA	ROE	Avg Gross Margin	Avg Operating Margin	Avg Net Margin
251020	Automobiles	22.3%	9.4%	6.2%	4.2%	15.9%	27.4%	11.8%	7.7%
252010	Household Durables	21.5%	0.9%	2.9%	3.0%	6.1%	27.1%	1.4%	2.4%
252020	Leisure Equipment & Products	29.8%	11.1%	6.2%	15.9%	43.4%	37.4%	3.8%	-1.9%
252030	Textiles, Apparel & Luxury Goods	61.5%	19.2%	13.3%	13.9%	22.3%	60.1%	17.6%	12.3%
253010	Hotels, Restaurants & Leisure	50.7%	17.0%	14.4%	6.7%	19.0%	51.6%	15.6%	10.9%
253020	Diversified Consumer Services	88.8%	32.5%	20.6%	7.5%	20.5%	88.8%	32.5%	20.6%
255010	Distributors	10.9%	6.8%	6.4%	13.3%	17.2%	10.9%	6.8%	6.4%
255020	Internet & Catalog Retail	23.9%	5.3%	3.4%	7.0%	19.0%	23.5%	5.3%	3.3%
255030	Multiline Retail	46.2%	12.0%	7.3%	6.1%	18.6%	52.8%	16.4%	10.7%
255040	Specialty Retail	49.5%	12.5%	8.0%	9.9%	16.8%	42.6%	11.0%	7.8%
302010	Beverages	59.3%	25.6%	16.4%	11.0%	32.7%	57.6%	23.6%	15.0%
303020	Personal Products	76.7%	11.0%	6.7%	9.9%	24.1%	66.7%	9.2%	5.5%

Source: S&P Dow Jones Indices; Reuters; Factset. Data as of March 30, 2012 based on the last 12 month data. Averaged profit margins are equally weighted. The rest profit margin data are capitalization weighted.

Among all luxury categories, art, casinos and gaming, accessories, distillers and vintners, and watches and jewelry were the most profitable categories (see Exhibit 54).

### Exhibit 54: Fundamentals by Category

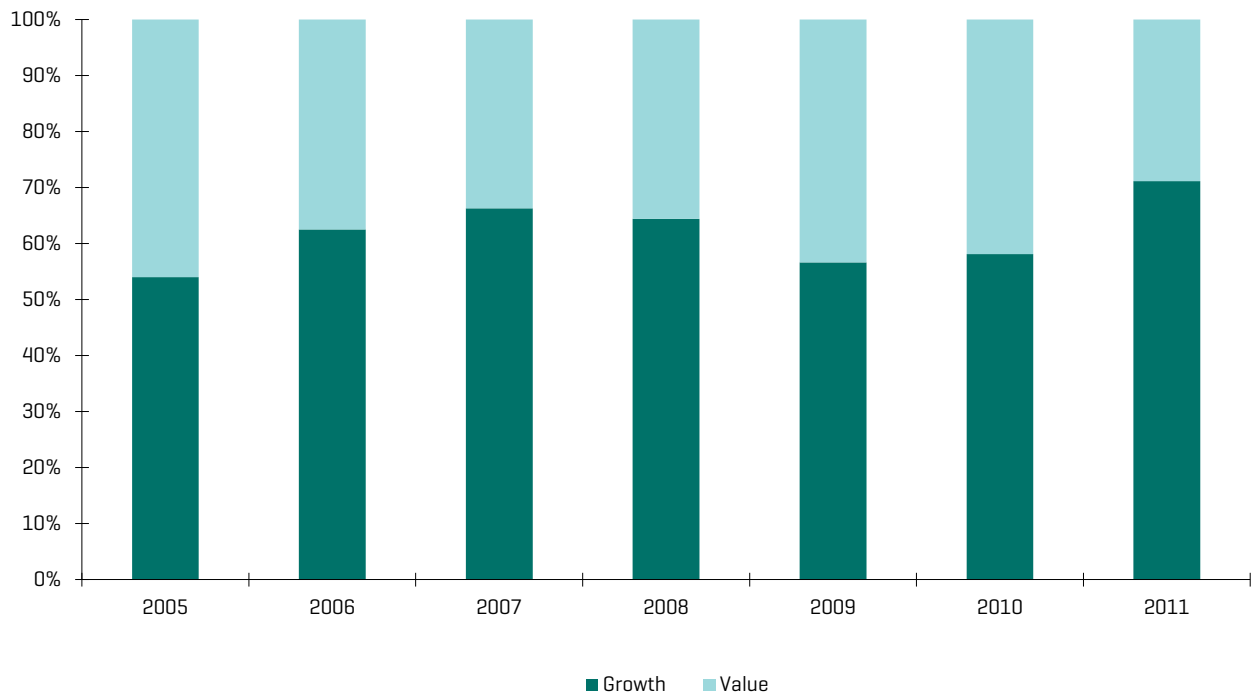
Luxury Category	Gross Margin	Operating Margin	Net Margin	ROA	ROE	Avg Gross Margin	Avg Operating Margin	Avg Net Margin
Art	88.8%	32.5%	20.6%	7.5%	20.5%	88.8%	32.5%	20.6%
Watches & Jewelry	79.3%	21.5%	15.5%	14.3%	18.5%	71.4%	17.6%	13.0%
Apparel	55.1%	13.9%	9.4%	10.3%	19.8%	58.6%	15.4%	10.8%
Footwear	43.8%	13.5%	10.1%	15.7%	22.7%	43.5%	16.8%	12.0%
Accessories	67.8%	25.1%	17.0%	15.7%	25.7%	68.4%	23.8%	16.1%
Distillers & Vintners	59.3%	25.6%	16.4%	11.0%	32.7%	57.6%	23.6%	15.0%
Perfume & Cosmetics	76.7%	11.0%	6.7%	9.9%	24.1%	66.7%	9.2%	5.5%
Distributor	10.9%	6.8%	6.4%	13.3%	17.2%	10.9%	6.8%	6.4%
Retail	47.5%	12.1%	7.6%	8.1%	17.7%	42.8%	11.6%	8.0%
Casinos & Gaming	49.8%	22.9%	18.5%	9.1%	27.5%	56.3%	21.0%	17.2%
Hotels, Resorts & Cruise Lines	52.2%	10.5%	10.0%	3.9%	9.7%	55.5%	13.5%	7.0%

Source: S&P Dow Jones Indices; Reuters; Factset. Data as of March 30, 2012 based on the last 12 month data. Averaged profit margins are equally weighted. The remaining profit margin data are capitalization weighted.

## Value/Growth Attributes

Based on stocks' value and growth weights used in the S&P Global BMI, the S&P Global Luxury Index has displayed growth-oriented characteristics since 2005, especially after 2010 (see Exhibit 55).

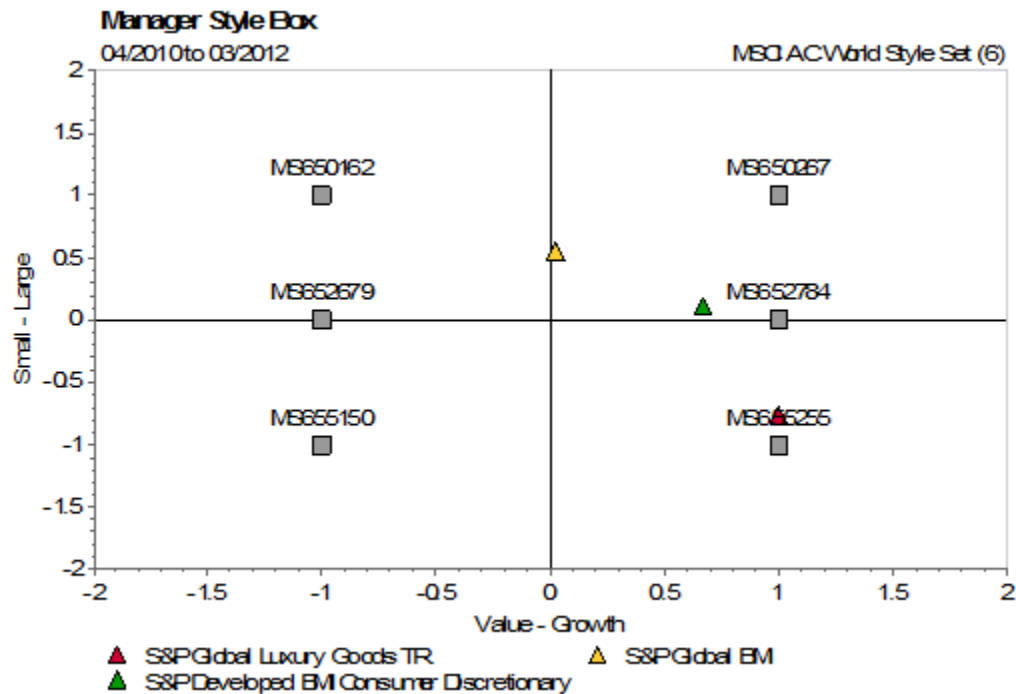
### Exhibit 55: Growth and Value Characteristics of S&P Global Luxury Index



Source: S&P Dow Jones Indices. Data as of rebalancing dates. Based on value/growth weights assigned in S&P Global BMI. This chart may reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

The style analysis conducted on the index during the period from March 31, 2010, to March 30, 2012, also confirmed the growth-biased attribute of the index during this period (see Exhibit 56). The surging demand for luxury goods after the financial crisis (organic growth), the rapid expansion of retail networks in high-potential markets (perimeter growth), and higher profit margins are likely to be the reasons for the growth attributes of the index in recent years (see Exhibit 56).



**Exhibit 56: Value/Growth Mapping: April 2010 to March 2012**

Source: S&P Dow Jones Indices; Factset. This chart may reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

## Conclusion

As the global economy continues growing and worldwide wealth accumulates, developing countries are joining the force to fuel the growth of global luxury sales. The S&P Global Luxury Index provides a transparent benchmark that can be harnessed for the construction of passive funds that track the performance of the global luxury industry in a cost-efficient way.

**Appendix 1: S&P Global Luxury Index: Holdings as of March 30, 2012**

Company	Country	Sub-Industry
Bayer Motoren Werke AG (BMW)	Germany	Automobile Manufacturers
Daimler AG	Germany	Automobile Manufacturers
Porsche Automobil Holding SE	Germany	Automobile Manufacturers
Harley-Davidson Inc	United States	Motorcycle Manufacturers
Bang & Olufsen A/S	Denmark	Consumer Electronics
Harman Intl Industries Inc	United States	Consumer Electronics
Toll Brothers Inc	United States	Homebuilding
Beneteau	France	Leisure Products
Callaway Golf Co	United States	Leisure Products
Polaris Inds Inc	United States	Leisure Products
Ports Design Ltd.	China	Apparel, Accessories & Luxury Goods
Christian Dior	France	Apparel, Accessories & Luxury Goods
Hermes Intl	France	Apparel, Accessories & Luxury Goods
LVMH-Moet Vuitton	France	Apparel, Accessories & Luxury Goods
Adidas AG	Germany	Apparel, Accessories & Luxury Goods
Hugo Boss AG	Germany	Apparel, Accessories & Luxury Goods
Trinity Ltd.	Hong Kong	Apparel, Accessories & Luxury Goods
Luxottica Group SpA	Italy	Apparel, Accessories & Luxury Goods
Prada SpA	Italy	Apparel, Accessories & Luxury Goods
Richemont, Cie Financiere A Br	Switzerland	Apparel, Accessories & Luxury Goods
Swatch Group AG-B	Switzerland	Apparel, Accessories & Luxury Goods
Burberry Group	United Kingdom	Apparel, Accessories & Luxury Goods
Coach Inc	United States	Apparel, Accessories & Luxury Goods
Fossil Inc	United States	Apparel, Accessories & Luxury Goods
Movado Group Inc	United States	Apparel, Accessories & Luxury Goods
Oxford Industries Inc	United States	Apparel, Accessories & Luxury Goods
PVH Corp	United States	Apparel, Accessories & Luxury Goods
Ralph Lauren Corp	United States	Apparel, Accessories & Luxury Goods
The Jones Group Inc.	United States	Apparel, Accessories & Luxury Goods
True Religion Apparel Inc	United States	Apparel, Accessories & Luxury Goods
Under Armour Inc A	United States	Apparel, Accessories & Luxury Goods
VF Corp	United States	Apparel, Accessories & Luxury Goods
Tod's SpA	Italy	Footwear
Deckers Outdoor	United States	Footwear
NIKE Inc B	United States	Footwear
Wolverine World Wide Inc	United States	Footwear
Galaxy Entertainment Group Ltd.	Hong Kong	Casinos & Gaming
Melco Crown Entertainment Ltd ADR	Hong Kong	Casinos & Gaming
SJM Holdings Ltd.	Hong Kong	Casinos & Gaming
Las Vegas Sands	United States	Casinos & Gaming
MGM Resorts International	United States	Casinos & Gaming
Wynn Resorts Ltd	United States	Casinos & Gaming

**Appendix 1: S&P Global Luxury Index: Holdings as of March 30, 2012 (continued)**

Company	Country	Sub-Industry
Shangri-La Asia Ltd.	Hong Kong	Hotels, Resorts & Cruise Lines
Resorttrust	Japan	Hotels, Resorts & Cruise Lines
Overseas Union Enterprises	Singapore	Hotels, Resorts & Cruise Lines
Millennium & Copthorne Hotels	United Kingdom	Hotels, Resorts & Cruise Lines
Carnival Corp	United States	Hotels, Resorts & Cruise Lines
Hyatt Hotels Corp	United States	Hotels, Resorts & Cruise Lines
Orient Express Hotels Ltd	United States	Hotels, Resorts & Cruise Lines
Royal Caribbean Cruises Ltd	United States	Hotels, Resorts & Cruise Lines
Starwood Hotel & Resort World	United States	Hotels, Resorts & Cruise Lines
Accordia Golf Co Ltd	Japan	Leisure Facilities
PGM Holdings K.K	Japan	Leisure Facilities
Sotheby's	United States	Specialized Consumer Services
Sparkle Roll Group Ltd.	Hong Kong	Distributors
Yoox SpA	Italy	Internet Retail
Blue Nile Inc	United States	Internet Retail
PCD Stores (Group) Ltd.	China	Department Stores
PPR SA	France	Department Stores
Nordstrom Inc	United States	Department Stores
Saks Inc	United States	Department Stores
Emperor Watch & Jewellery Ltd	Hong Kong	Apparel Retail
I.T Ltd.	Hong Kong	Apparel Retail
Abercrombie & Fitch Company A	United States	Apparel Retail
ANN Inc.	United States	Apparel Retail
Hengdeli Holdings Ltd.	China	Specialty Stores
Chow Sang Sang Holdings International Ltd.	Hong Kong	Specialty Stores
Luk Fook Holdings (International) Ltd.	Hong Kong	Specialty Stores
Dufry AG	Switzerland	Specialty Stores
Signet Jewelers Ltd	United States	Specialty Stores
Tiffany & Co	United States	Specialty Stores
Williams-Sonoma Inc	United States	Home Furnishing Retail
Pernod-Ricard	France	Distillers & Vintners
Remy Cointreau SA	France	Distillers & Vintners
Diageo Plc	United Kingdom	Distillers & Vintners
Brown-Forman Corp B	United States	Distillers & Vintners
Shiseido Co	Japan	Personal Products
Elizabeth Arden Inc	United States	Personal Products
Estee Lauder Cos.	United States	Personal Products
Inter Parfums Inc	United States	Personal Products

## End Notes

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The inception date of the S&P Global Luxury Index was August 15, 2011, at the market close. All information presented prior to the index inception date is back-tested. The back-test calculations are based on the same methodology that was in effect when the index was officially launched. Complete index methodology details are available at [www.indices.standardandpoors.com](http://www.indices.standardandpoors.com).

Past performance is not an indication of future results. Prospective application of the methodology used to construct the S&P Global Luxury Index may not result in performance commensurate with the back-test returns shown. The back-test period does not necessarily correspond to the entire available history of the index. Please refer to the methodology paper for the index, available at [www.standardandpoors.com](http://www.standardandpoors.com) for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations. It is not possible to invest directly in an Index.

Also, another limitation of hypothetical information is that generally the index is prepared with the benefit of hindsight. Back-tested data reflect the application of the index methodology and selection of index constituents in hindsight. No hypothetical record can completely account for the impact of financial risk in actual trading. For example, there are numerous factors related to the equities (or fixed income, or commodities) markets in general which cannot be, and have not been accounted for in the preparation of the index information set forth, all of which can affect actual performance.

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