CI ASIAN TIGER FUND
QUARTERLY REPORT

Cooper Investors Pty Limited AFS Licence Number 221794 ABN 26 100 409 890

DECEMBER 2013

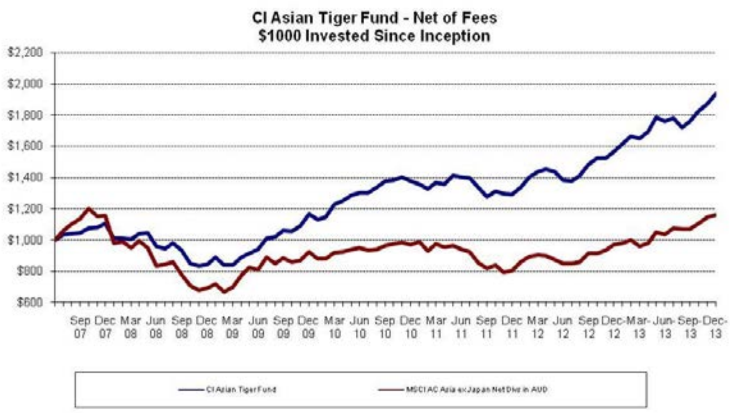
"Money gives you purchasing power, status gives you social power but love and peace gives you the zest to live." Kuldeep Gulati.

"The most difficult battle you will ever face is the battle within yourself." Zen saying.

"Sometimes your joy is the source of your smile, but sometimes your smile can be the source of your joy." Tich Nhat Hanh.

	**PORTFOLIO	BENCHMARK	VALUE ADDED
ROLLING 3 MONTH	10.34%	8.08%	2.26%
ROLLING 1 YEAR	25.95%	19.61%	6.34%
ROLLING 2 YEAR	24.36%	20.20%	4.16%
ROLLING 3 YEAR	14.13%	6.11%	8.02%
ROLLING 5 YEAR	20.77%	10.84%	9.93%
SINCE INCEPTION*	12.72%	2.31%	10.41%
SINCE INCEPTION^	117.89%	15.99%	101.90%

*Annualised
^Cumulative (2 July 2007)
**Before fees and expenses



Market and Portfolio Performance

World central banks, led by the Federal Reserve in America but closely followed by the Bank of England, the European Central Bank and most recently the Bank of Japan, in 2007/08 started to implement an unprecedented set of stimulus measures in response to the Global Financial Crisis (GFC). Five years later these measures are still in place and, while equities markets continue to benefit, expectations around growth and job creation have yet to materialise as envisaged. Central bank balance sheets around the world have been inflated substantially, in many instances with assets of dubious quality, exacerbating indebtedness of Western economies. Clearly the costs and the risks associated with Quantitative Easing (QE) are increasing and easy money policies given time, usually lead to "booms and busts". Candidly, we do not know when or how QE will end and whether or not it will be successful. While we have significant reservations, we also acknowledge that while it continues, as it did in 2013, equities markets will do well. To this end the MSCI AC World index in A$ terms with net dividends rose a massive 42.5% in calendar 2013, albeit with a "tail wind" from the weaker A$.

Since the MSCI AC World Index bottomed on 3rd June 2009 during the GFC, through to the 31st December 2013, it has risen 63.2% in A$ terms with net dividends. This means it has substantially out-performed the MSCI AC Asia Ex Japan Index, which has increased 38.8% in A$ terms with net dividends over the same period.

Clearly investors have been worried about the "spill over" impact that any end to QE may have on emerging markets. Essentially QE has pushed interest rates in Western economies to ultra low levels. This has encouraged investors to leverage and chase more attractive yields/returns in faster growing markets like Asia. The longer QE has gone on, the more markets in Asia have become sensitive to market rumours it may end.

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That acknowledged, CLSA recently highlighted that the region is much less leveraged than it was during the late 1990's, especially in regard to foreign currency debt. Among the statistics it highlighted were Asia's external debt to GDP ratio had fallen from 32% in 1998 to 16% in 2012, while that of the ASEAN Four (Indonesia, Malaysia, Philippines, and Thailand) had fallen from 98% to 30% over the same time period. Nevertheless while Asia rose in absolute terms (+8.1% in A$ terms with net dividends), it continued to lag the MSCI AC World Index in relative terms over the last quarter of calendar 2013.

<u>MSCI Data (with net Dividends)</u>

	December Quarter 2013 A$ Terms	December Quarter 2013 Local Currency Terms
MSCI World	+12.2%	+7.8%
MSCI AC Asia Ex-Japan	+8.1%	+3.4%
MSCI Australia	+3.6%	+3.6%
MSCI China	+8.5%	+3.8%
MSCI Hong Kong	+8.0%	+3.3%
MSCI India	+15.3%	+9.0%
MSCI Indonesia	-0.4%	+0.1%
MSCI Malaysia	+10.2%	+5.9%
MSCI Philippines	-0.7%	-3.2%
MSCI Singapore	+5.3%	+1.3%
MSCI Korea	+8.7%	+2.2%
MSCI Taiwan	+9.0%	+5.2%
MSCI Thailand	-6.4%	-5.9%

More generally, 2013 proved to be a "rocky year" for investors in 30 Year US Treasury bonds, gold and oil. The 30 Year US Treasury bond yielded 2.86% on the 31st December 2012, but at the end of 2013 it was yielding 3.90%. Gold had a terrible year sliding from US$1,674 an oz to US$1,202 an oz or 28.2% over the same period. Most of the physical buying of gold in recent times continues to come from Asia. Best of the bunch was oil, which ended the year essentially unchanged around US$111 per barrel (Brent crude), despite the widening conflict in the Middle East between Sunni and Shia muslims.

For the 12 months ending December 2013 the MSCI World index rose 42.5% in A$ terms with net dividends compared with the MSCI ac Asia Ex Japan which increased 19.6%. The best performing market in Asia over the same period was Hong Kong (+28.9% in A$ terms with net dividends), followed by Taiwan and Malaysia. In contrast the worst market was Indonesia (-11.2% in A$ terms with net dividends) and Thailand, which also recorded a decline.

Having bottomed in August, the Indian stock market rose 15.3% over the December quarter, making it the best performing regional market. While part of the rally stems from less market concern about tapering, it has also been driven by political developments. There now appears to be a real possibility that Narendra Modi, who leads the Bharatiya Janata Party (BJP), could win government at next year's General Election (due to be held in May). A BJP (Hindu nationalist party), led by Narendra Modi, is likely to be pro-reform and pro-business and a very positive development for the stock market. The recent State election victories of the BJP in Chhattisgarh, Delhi, Madhya Pradesh and Rajasthan, driven by the population's anti-incumbency mood, high food prices and populist anger over corruption, have given the stock market further impetus. That acknowledged, the BJP has always been strong in these states and what happens in state elections does not always materialise in national elections. Furthermore, no single party in India has won power in its own right since 1989, making coalition support crucial. Interestingly a new party has been formed in India called the Aam Admi Party or AAP.

The genesis of this party lies in the anti corruption movement led by Anna Hazare, and it's possible the AAP could become more significant going forward. Lastly, and in an attempt to be balanced, India continues to have no evidence of an investment cycle and various ongoing economic challenges, which makes predicting the future fraught with danger.

Perhaps the most surprising market performance over the last quarter came from Malaysia, which rose a highly credible +10.2%. This occurred despite Prime Minister Najib Razak announcing the Bumiputra Economic Empowerment Project in September. For all intents and purposes this is another affirmative action policy, like the New Economic Policy introduced in 1971. This seems to indicate that Malaysia is again moving towards race based politics and questions the sustainability of Najib Razak's New Economic Model introduced in 2010. The outcome of the new policy, according to the Straits Times Newspaper, seems likely to encourage cronyism and corruption as well as accelerating the "brain drain" from Malaysia.

While both Taiwan and South Korea suffer from poor demographic profiles, both countries had current account surpluses in 2012 and relatively solid fiscal positions. Coupled with low valuations, especially in the case of Korea, these markets have been less exposed to tapering fears than others in the region. Additionally both are heavily dependent on exports, which would benefit from higher levels of global growth, should it materialise as many expect in 2014. On the back of such considerations Taiwan rose 9.0% in A$ terms with net dividends over the quarter and South Korea 8.7%.

Interestingly, China is another market that has risen strongly over the last three months (+8.5%), partially on political initiatives stemming from the Third Plenum of the 18th Chinese Communist Party Congress held in November. The reforms announced following the meeting, which are discussed in more detail later in this report, are significant but much will depend on their implementation and the timing associated therewith. The challenges facing President Xi Jinping and Premier Li Keqiang should not be under-estimated, especially as growth needs to slow to accommodate reform. Interestingly, while the overall market in China has been a relatively disappointing performer in recent years, sectors like consumer, gaming, and internet stocks have delivered excellent returns, rewarding investors for correct asset allocation.

Also newsworthy is that having imposed a moratorium on new IPO's in October 2012 to stamp out misconduct and fraud, China's Security Regulator is now again opening up the market after having made necessary reforms. As such, new IPO'S will now be forthcoming in China. While this may increase supply "near term", the greater choice it will give both companies and investors has to be a long term positive.

Indonesia (-0.4% in A$ terms with net dividends), the Philippines (-0.7%) and Thailand (-6.4%), having performed well in recent years, were the worst performers over the December quarter. Despite the continuing rise in interest rates, which has helped stabilise the Rupiah, the Indonesian market remains vulnerable to tapering concerns. That acknowledged, a more stable currency should aid inflationary expectations, which will be positive for the market. Furthermore, 2014 should see an improvement in Indonesia's current account deficit, its fiscal deficit remains modest (1.8% of GDP in 2012) despite the continuing of subsidies (energy), and its public sector debt relative to GDP is only 28.1% (2012).

A wildcard remains the forthcoming 2014 General Election, with rumours suggesting the highly regarded Joko Widodo (Governor of Jakarta), could run as the Presidential Candidate for Megawati Sukarnoputri's PDI-P. This would be regarded as a positive development.

The market in the Philippines also had a lacklustre quarter on profit taking stemming from the more uncertain outlook for QE. That said, the economy remains in good shape, driven by Overseas Remittances and the Business Process Outsourcing (BPO) sector, both of which have benefited recently from the weaker Peso.

GDP growth is likely to be 7% in 2013 (source: JP Morgan) while inflation remains modest at 3.0% (Source: JP Morgan). Furthermore, the country retains a current account surplus and has a manageable level of public sector debt (45.6% in 2012).

The Thai market has been negatively impacted by slower growth. This is estimated by JP Morgan at 2.6% for 2013 and is well below what consensus had expected earlier this year. This has been caused by lower consumption, with Thailand yet to see any stimulus from the Government's proposed infrastructure program. While Thailand's public sector debt was only 37.4% in 2012, the country now runs a current account and fiscal deficit.

However, most anxiety towards the Thai market has stemmed from perceptions of rising political risk. The Prime Minister, Yingluck Shinawatra, recently tried to pass an Amnesty Bill which may have allowed her exiled brother Thaksin Shinawatra (and others) to be pardoned and return to Thailand. This subsequently caused widespread "Yellow Shirt" demonstrations, recently culminating in Yingluck Shinawatra dissolving Parliament and calling a General Election in an attempt to resolve the situation. The Prime Minister's Pheu Thai Party, whose main support base are "Red Shirts", is widely expected to win the forthcoming Election, but whether or not this resolves the current crisis remains to be seen.

The Portfolio

The portfolio returned 10.34% during the quarter, which represented out-performance of 2.26% against the benchmark, which returned 8.08%. The portfolio's Indian stocks in aggregate were the largest contributor to out-performance during the quarter. Conversely, the portfolio's investments in Indonesia, the Philippines and Thailand detracted from performance.

While the portfolio remains diversified by geographic region, its biggest exposure remains in Hong Kong and China (37.3%), although relative to the MSCI AC Asia Ex Japan Index it is marginally under-weight. The portfolio's combined exposure to South Korea and Taiwan is 12.7%, which is much lower than the benchmark's which stand at 35.4%. In contrast, the portfolio's 28.7% holding in ASEAN results in it being materially over-weight in this area. The investment in India amounts to 11.3%, compared with the benchmark weighting of 7.8%. Lastly, the portfolio's exposure to Australia has further reduced to just 2.8%, with the balance of funds held in cash (7.2%).

From an industry perspective the portfolio's four largest sector weightings are in financials 25.6% (under-weight), industrials 25.3% (over-weight), consumer discretionary 12.4% (over-weight) and consumer staples 12.1% (over-weight). In contrast, the portfolio only has a weighting of 4.5% to the information technology sector, compared with the benchmark which has 20.1%. The portfolio also has no telecommunication services exposure, but it does have good exposure to the internet theme in various Asian countries.

Having visited the Philippines over the last two years, we used the more recent period of market weakness to establish a position in the market. The Philippines' economy continues to benefit from better political governance, favourable demographics and a strong economy (Overseas Remittances and growth in industries like BPO). With this in mind, we initiated a position in BDO UniBank, which is one of the top three banks in the country and the largest by assets.

The bank is professionally managed and its major shareholder (SY Family) is one of the most reputable in the Philippines. With only 20% of the country's population having a bank account, the size of the opportunity for BDO UniBank is significant. Valuation criteria associated with the bank is very reasonable. We partially funded this investment by reducing our bank exposure in Indonesia, Malaysia and Singapore.

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During the December quarter, the portfolio also invested in a Thai life insurance company and a Korean retailer. Life insurance penetration in Thailand remains low (life premium per GDP % in 2012 is under 3% compared with over 15% in Taiwan), with future market growth likely around 15%. Furthermore, the industry is something of an oligopoly and the investment we have made is in a reputably managed family company. The second largest shareholder is a respected Asian multi national life insurance company.

The business case for the South Korean retailer is based around the country's aging population, that the industry is highly concentrated (three players only), a changing sales mix and an attractive valuation. Lastly, the family company in question, adjusting for the sale of surplus assets, has no debt and "cash at bank".

On the other side of the ledger, we disposed of the portfolio's investment in Malaysian healthcare operator KPJ. While we remain optimistic about the industry over the long term, the market is more mature than it was and competition has increased. KPJ has also made large investments in new hospitals, which has necessitated raising capital, from which earnings are likely to be limited near term.

The company has also increased its overseas geographical footprint to include Bangladesh as well as Indonesia, despite sub optimal results still coming from the latter. With KPJ selling on an expected P/E ratio of over 26x 2013 earnings, we feel better value exists elsewhere.

In respect of other developments, we elected not to sell our holding in Vinda to Swedish company SCA at HK$11.00, instead preferring to focus on the long term. Vinda is now owned 61% by SCA, 22% by Fu An International (founding family) and 17% by other shareholders. Going forward, we expect Vinda to become more integrated within SCA, which will strengthen its business in areas such as production, distribution, marketing and new product development. It seems possible a merger and acquisition could occur between the two companies to streamline operations in China. In short, we expect good synergies to materialise over the next few years.

The portfolio also has an investment in CSE Global, which over the quarter successfully divested its Servelec business through an IPO on the London Stock Exchange. The net proceeds from the sale amounted to S$220million which was generally higher than market expectations. CSE has subsequently paid out S$114.5million (28 cents per share) in the form of a special dividend and retained S$75 million within the company. The divestment will give CSE Global further focus, as a niche systems provider to the global oil and gas industry, which we believe is positive.

Over the last three months, we have taken some profits in the Hong Kong/China region, where we have sold down the portfolio's positions in some cyclical growth stocks post decent price appreciation. We have been happy to maintain our cash position at around 7% and over the quarter the portfolio's turnover amounted to a modest 3% and 20% for the calendar year.

International Visits – Observations and comments

During the December quarter of 2013, we made a trip to the Greater China region and also visited South Korea. Predictably, the focus of debate in China was the forthcoming Third Plenum Meeting, the results of which were announced shortly after our return to Australia.

The meeting was very important as most people, not least the leaders of China's Politburo, are very aware the country's existing growth model is unsustainable. As such, China's leaders are being proactive and they have outlined a reform agenda. This is in marked contrast to Western welfare states who remain mired in debt and whose governments have shown little or no inclination to try and rectify the situation with real restructuring.

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For many years credit growth in China has been running in excess of nominal GDP, with interest rates artificially low in the country. This has encouraged companies to “leverage” despite falling returns on capital, with inflation eroding the purchasing power of money. More and more capital (or debt) is required to achieve designated growth targets. This cannot continue and aside from debt issues, China has over-capacity in key SOE industries and elevated property prices in key first tier cities.

Reforming the Chinese economy will not be easy and this will only occur gradually over a number of years. The process will negatively impact on growth, as lower investment spending products cuts excess capacity in industry. In order for these things not to have a detrimental impact on unemployment and therefore maintain “social harmony”, it is hoped that both higher private investment/spending coupled with improved world economic activity will compensate. China is likely to achieve GDP growth this year of around 7.5%, but this has the potential to reduce to around 7.0% in future years. Indeed, through the reform process, there is likely to be more “downside than upside” with respect to the country’s growth rate.

The Third Plenum Plan for reform covered numerous areas such as the role of government, fiscal policy, taxation, social services, etc. Nevertheless, the three areas of greatest importance in the near term appear to cover financial sector reform, land/Hukou reform and State Owned Enterprises (SOE) reform. Financial sector reform in terms of deposit insurance, interest rate liberalisation, etc. is crucial. The newly created Shanghai Free Trade Zone is likely to stimulate private sector investment and perhaps become an early experiment for the opening up of China’s Capital Account, but not in the foreseeable future. In regard to land reform, farmers will have greater property protection rights and they have more freedom to sell or lease their land, at market prices.

This should facilitate the development of modern agriculture and promote urban development. Hukou (household registration system) reform will also be implemented in varying degrees. For small cities in China, it will be fully “open”, there will be an orderly relaxation in medium sized cities, while it will remain “in place” for Tier 1 cities.

There will also be some relaxation of China’s one child policy, whereby families with one parent as a single child, can have two children. In regard to SOE reform the Government announced plans to increase private participation, ensure 30% of SOE profits are paid in the form of dividends and make SOE’s more efficient by altering remuneration structures.

Reforms aimed at lowering/removing subsidies and introducing competition are also on the agenda. These things are now crucial to the economic well-being of China and much is at stake. Furthermore, it will be important to monitor how and when the proposals are implemented. In short,” actions speak louder than words”, but again the enormity of the challenge should not be under-estimated.

Having outlined these reforms, we have assumed the positive rather than negative, and that they will be gradually implemented over a protracted period of time. This then “begs the question”, which sectors, from a market standpoint, will be the winners and the losers. To this end, we would make the following summary comments and observations:

- Financial sector reform is likely to negatively impact on China’s large banks through lower margins (interest rate liberalisation) and higher non-performing loans (asset quality concerns). By contrast, the Government is expected to introduce annuities as it fosters pension reform which is likely to be positive for the life insurance sector. As an aside, Citi has agreed to sell the right to distribute insurance products through its branch network to AIA in 11 markets across the Asia Pacific region. AIA paid Citi an upfront fee of over US$1bn for the distribution rights for a 15 year period.

- Land/Hukou reform should improve the lives of the rural masses as well as modernise Chinese agriculture. Selected property developers seem likely to benefit.

- SOE reform is likely to be more complicated. While reducing excess capacity in SOE dominated industries like aluminium, cement, chemicals, shipbuilding and steel will have long term benefits, there will be "near term costs. Furthermore, the Government has pledged to reduce pollution and these industries are all very serious offenders. As such, higher taxes are likely, while further potential restrictions on car usage may impact the automobile sector.

- The relaxation of China's one child policy may benefit consumer related companies, especially those with a product orientation around children.

- By contrast, the government is keen to continue urbanisation and the water, railway and social housing industries, should all benefit from continued infrastructure spending. Furthermore, the Government intends to implement market pricing for oil, gas, water, electricity and power which augurs well for companies operating in those industries.

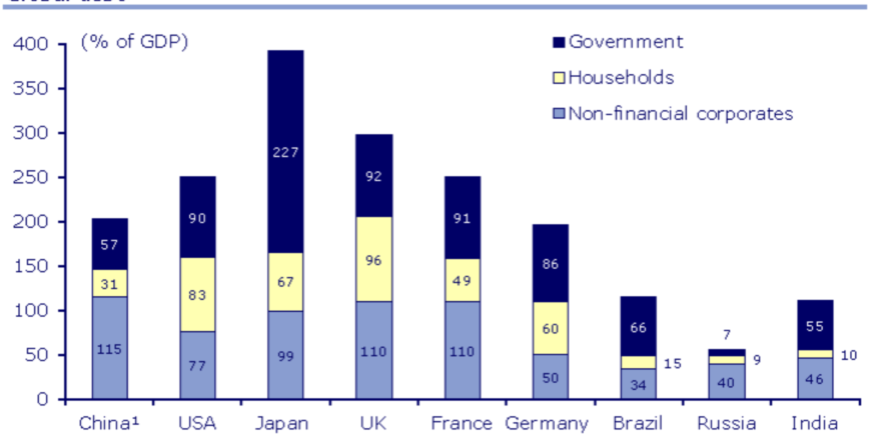
- The Chinese Government has also announced reforms in the social services area. Industries like education, healthcare and retirement should benefit, but the focus will be wider and it will review income distribution, employment and welfare payments.

- While not specific to the reform agenda, growth trends associated with the internet and the digital superhighway remain buoyant in China. Companies operating in a range of industries from mobile operators to the internet seem likely to benefit for years to come.

The Third Plenum also indicated that fiscal and tax reform was on the agenda. Indeed the Government has highlighted the need for transparent budget setting, as well as higher direct taxes, an overhaul of VAT/consumption tax and it has foreshadowed the introduction of new taxes, e.g. real estate tax, resources tax, etc.

Lastly, it is worth highlighting that China's debt, while comparing favourably with many other countries in the world, can no longer be regarded as low (see table below from CLSA). This is a timely reminder of just how much debt exists in the world today.

Global debt



¹ CLSA estimate for China. Source: McKinsey, *The Economist*

The portfolio has a variety of companies that should benefit from the above mentioned reforms, as and when they are implemented.

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Market Outlook

Investor sentiment towards world stock markets continues to oscillate around possible changes in US monetary policy. December's announcement that the Federal Reserve would reduce its asset purchases from US$85bn to US$75bn per month has been described by some as "tinkering" and by others as "tapering", but it does not look like a strong commitment to "tightening". As such, QE which now ranks as one of the largest government stimulus programs in history, rolls on, albeit in a slightly modified format. Furthermore, the nomination of Janet Yellen to be Chairman of the Federal Reserve from 31st January 2014 has only reinforced market belief that there will be no material change in policy towards QE and that "forward guidance" comments will continue to focus on keeping interest rates at low levels.

While the costs of QE have been substantial, the economic benefits to date have been minimal. The main beneficiaries continue to be "Wall Street rather than Main Street", despite a modest pick up in American GDP growth recently. Indeed the respected CEO of Pimco (El-Erian) has suggested that post spending around US$4tr, the Federal Reserve's return may be as low as 0.25% of GDP. Unfortunately, while the stimulus in the US has been massive, growth and job creation have proved more elusive. Indeed, rather than finding its way into productive new investment, the credit has stimulated speculation in financial assets, which in turn has led to an expansion in price earnings ratios. This is unsustainable, unless QE generates more inclusive growth through greater bank lending. This would then benefit society more broadly, rather than the affluent through financial asset inflation. Furthermore, the current political landscape in the US suggests that Janet Yellen will receive little fiscal policy assistance from the current administration. This will only make the current job more challenging and whether or not success will be achieved, rather more debatable.

While QE remains in place, financial markets will remain buoyant and may even morph into a speculative bubble. That acknowledged, a benign exit from QE looks increasingly unlikely. The US, (and some other developed nations beset by political dysfunction) badly needs to rebalance its economy or face the real prospect of further political discord. This was recently well articulated in an article published in the Huffington Post which commented on the massive and ongoing gap between the rich and poor, highlighting it as one the most pressing challenges facing America and its economy today.

The article stated that "more than half of US wage earners made less than US$30,000 last year according to analysis released by the Social Security Administration. That's not far above $27,000 that marked the Federal poverty line for a family of five in 2012".

Asia itself has some well documented challenges, many of which we have commented on in the past. Nevertheless the region generally continues to follow more orthodox monetary policies and most economies have manageable levels of sovereign debt. GDP growth rates remain well above developed world averages, leading to faster income growth and lower levels of unemployment. The consumption component to GDP also has considerable potential to increase in countries like China and intra-Asian trade is increasing. The demographic profile of Asia, while not uniform, compares favourably with the West. While appreciating that today's world is a small place, these and other factors lead us to believe that the Asian region should be an important part of an investor's universe. Furthermore, while acknowledging the search has become harder, we continue to find good quality investments at reasonable prices in Asia, while our investment strategy remains risk averse.

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Portfolio Characteristics

	Portfolio	Benchmark	Variance
Number of Stocks	46	603	557
Beta	0.83	1.00	-0.17
P/E (X)	13.6	11.4	2.2
Yield (%)	2.6	2.7	-0.1
P/B (X)	2.3	1.8	0.5
Historical EPSg(%)	10.2	6.9	3.3
Forecast EPSg(%)	5.6	11.2	-5.6
Return on equity (%)	16.8	16.0	0.8
Dividend Cover (x)	2.8	3.3	-0.5
Net Debt/Equity (%)	0	32	-32