CI ASIAN TIGER FUND
QUARTERLY REPORT

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

DECEMBER 2014

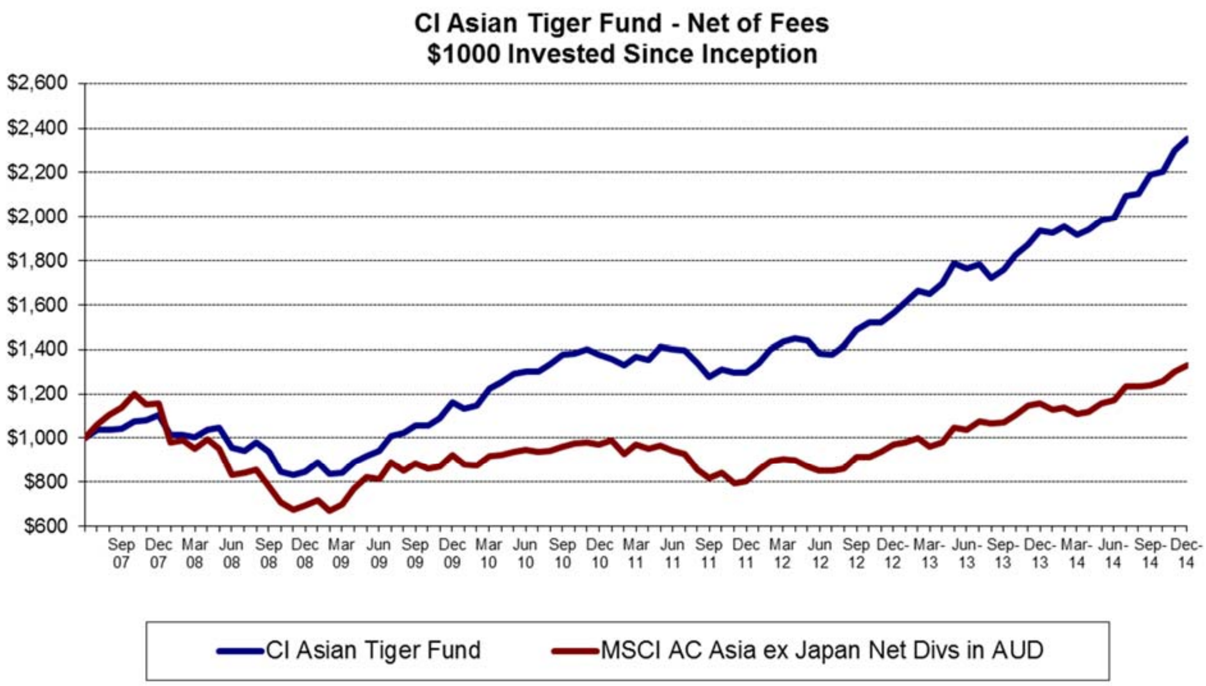
"The true test of one's character is how one handles adversity." **W. Cheng.**

"Neither fire nor wind, birth or death can erase our good deeds." **Buddha.**

"Satisfaction lies in the effort, not the attainment. Full effort is full victory." **Gandhi.**

	****PORTFOLIO**	**#BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTH	7.80%	7.06%	0.74%
ROLLING 1 YEAR	23.54%	14.58%	8.96%
ROLLING 2 YEAR	24.76%	17.08%	7.68%
ROLLING 3 YEAR	24.09%	18.30%	5.79%
ROLLING 5 YEAR	17.72%	7.52%	10.20%
ROLLING 7 YEAR	13.56%	2.01%	11.55%
SINCE INCEPTION*	14.11%	3.86%	10.25%
SINCE INCEPTION^	169.17%	32.89%	136.28%

*Annualised
^Cumulative (2 July 2007)
**Before fees and expenses
MSCI AC Asia ex Japan Net Divs in AUD



DECEMBER 2014

Market and Portfolio Performance

The portfolio ended the December quarter 7.80% higher in A$ terms with net dividends, compared with its benchmark which rose 7.06% on an equivalent basis, over the same period.

Looking back over the course of calendar 2014, financial and commodity markets retained their innate capacity to surprise investors with unforseen events. One of the most substantial of these was the dramatic decline in the oil price, which fell 49.27% over the last 12 months. The oil price is now substantially below its all-time peak of US$140 a barrel which was recorded on 30/06/2008.

Many investors have "conspiracy theories" as to why the oil price has declined, ranging from politics to economics. We tend to favour the mundane explanation. Namely, that supply exceeds demand and that Saudi Arabia has become tired of maintaining equilibrium in the market, with the resultant loss of market share. World demand for oil amounted to around 91m BPD in 2013 and has grown 1% per annum or a little above over the last two years. While global supply broadly "matched" demand last year, there have been some important changes in the composition of supply in recent years, most notably what has been happening in North America. As the US Energy Administration recently stated:

> *"Growth in crude oil production from tight oil and shale formations, supported by identification of resources and technology advances, have supported a nearly fourfold increase in tight oil production from 2008, when it accounted for 12% of total US crude oil production, to 2012 when it accounted for 35% of total US production."*

The same organisation predicts (base case) that total US crude production will grow from 6.5m BPD in 2012 to 9.6m BPD in 2019, by which time tight oil production will account for 50% of the national total.

Events in America have reduced demand for oil previously supplied by OPEC. In November, OPEC decided to maintain its quota at 30m BPD rather than acquiesce to production cuts. Saudi Arabia, which is producing around 8.8m BPD, but has capacity of 13m BPD, decided that it was not prepared to reduce production further and accept a further erosion of market share. While the lower oil price is positive for Western consumers and the majority of Asian economies, it could heighten geopolitical risks in countries like Russia, Venezuela, Nigeria and the Middle East. The weakness in oil and other commodities also highlight the ongoing risk of deflation in many Western economies. Against a backdrop of falling commodity prices, it is hardly surprising that the A$ has been weak against Asian currencies this year and has declined over 8.5% against the US$ over the same period. That acknowledged and as CLSA recently stated in regard to Asia:

> *"Falling commodity prices are a positive in a region in which only Malaysia does not have a trade deficit in mineral fuels. The table below shows the 2013 oil trade balances and the current account gearing into falling oil prices."*

Oil trade balance and gearing into change in oil price

	Oil related trade balance % GDP	Current a/c impact of 10% fall in oil price US$ bn (pa)	% GDP
China	(2.5)	26.1	0.3
Hong Kong	(5.1)	1.4	0.5
India	(5.3)	9.8	0.5
Indonesia	(3.2)	2.8	0.3
Japan	(3.2)	15.7	0.3
Korea	(5.9)	7.8	0.6
Malaysia	0.2	(0.1)	0
Philippines	(2.1)	0.5	0.2
Singapore	(5.7)	1.7	0.6
Taiwan	(5.7)	2.8	0.6
Thailand	(9.8)	3.8	1

Source: CLSA, CEIC

Until OPEC and specifically Saudi Arabia see some supply side adjustment, particularly in North America, there is unlikely to be much recovery in oil prices. The next OPEC meeting is due to be held in June 2015.

Amongst the more significant commodity price declines impacting on the A$ over both the quarter and 2014, the following are worth highlighting:

	% Annual Change in 2014
Gold	-1.5%
Brent Crude Oil	-45.9%
Copper	-17.7%
Iron Ore	-49.2%

This resulted in widespread depreciation in the value of the A$ against Asian currencies and the US$:

A$ Exchange Rate	% Change Qtr	Annual
KRW	-2.40%	-4.58%
PHP	-7.12%	-7.64%
INR	-3.30%	-5.74%
SGD	-2.56%	-4.12%
MYR	-0.39%	-2.54%
IDR	-3.88%	-6.97%
HKD	-6.60%	-8.52%
US$	-6.48%	-8.53%
THB	-4.53%	-7.89%
CNY	-5.51%	-6.26%

In turn, this led to the amplification of A$ returns to local investors, who had invested in overseas markets:

MSCI Data with net dividends	December Qtr 2014 in A$ terms	December Qtr 2014 in local currency terms	12 month ending December 2014 in A$ terms	12 month ending December 2014 in local currency terms
AC World	7.4%	2.9%	13.9%	9.3%
AC Asia ex JP	7.1%	2.2%	14.6%	7.4%
China	14.6%	7.0%	18.0%	8.0%
Hong Kong	10.2%	3.0%	14.9%	5.1%
India	6.2%	1.5%	35.4%	26.4%
Indonesia	7.6%	2.3%	38.4%	28.8%
Korea	-1.5%	-4.1%	-2.8%	-7.4%
Malaysia	-4.3%	-4.6%	-2.3%	-4.6%
Philippines	7.6%	0.3%	37.3%	26.6%
Singapore	6.4%	3.3%	12.6%	8.0%
Taiwan	8.7%	5.6%	19.6%	16.0%
Thailand	0.1%	-5.0%	27.3%	16.0%

China / Hong Kong

Both the Chinese (+14.6% in A$ terms with net dividends) and Hong Kong markets (+10.2% in A$ terms with net dividends) performed incredibly well over the December quarter. The two most important catalysts behind this were the commencement of the Shanghai-Hong Kong stock programme and China's surprise interest rate cut in late November.

The China Securities Regulatory Commission and the Hong Kong Securities and Futures Commission announced the start of the pilot project to provide mutual trading access between the Shanghai and Hong Kong markets on 17/11/14. Under this scheme, Hong Kong and overseas investors can trade certain stocks on the Shanghai Stock Exchange, designated as Northbound Trading. Similarly Chinese investors (institutional investors or retail investors with RMB 500,000 in their securities account) can trade specific stocks on the Hong Kong Stock Exchange, designated as Southbound Trading. The project allows for a maximum cross border investment of RMB 550bn (RMB 300bn Northbound/RMB 250bn Southbound) and a daily two way quota of RMB 23.5bn (RMB 13bn Northbound/RMB 10.5bn Southbound). Some 568 A shares and 264 Hong Kong shares are tradeable as part of the initial programme. Settlement of trades in both exchanges will occur in RMB and "control" maintained via the quota and closed loop nature of the programme.

The Shanghai-Hong Kong stock programme is important as it will enhance the internationalism of the stock market in China. It should also mean that Chinese stock exchange rules, relationships, systems and processes evolve in line with global best practices over the longer term.

It is worth highlighting that, before the Shanghai-Hong Kong stock programme, cross border investment in the Chinese equity market was only permitted through designated schemes, such as Qualified Domestic Institutional Investor (QDII), Qualified Foreign Institutional Investor (QFII) and RMB Qualified Foreign Institutional Investor (RQFII). In essence, Chinese institutions could invest internationally through QDII, while foreign institutions would invest in China through QFII and RQFII. That stated, all three schemes had strict controls and regulations, and will continue to co-exist with the Shanghai-Hong Kong stock programme. Assuming the new programme is successful, it will also enhance the prospect of Chinese A shares being included in key international indices such as the MSCI, FTSE and S&P. How this would be done (percentage of free float market capitalisation, available quota, etc.) remains to be seen, but it clearly would be a significant (and positive) event.

The real significance of the Shanghai-Hong Kong stock programme is that the initiative signals that further liberalisation and reform of China's capital account is on the agenda. What further changes occur to China's financial system and how and when they are implemented remain open to conjecture. Nevertheless, examples could include interest rate reform, liberalisation of the exchange rate and the development of a strong self-regulated banking industry.

Having grown 7.3% YOY in the third quarter of calendar 2014, the People's Bank of China (PBOC) cut interest rates for the first time in two years in late November. This was done as a number of recent economic indicators (investment/factory production/retail sales) have been below expectations, raising the possibility that China could miss its 7.5% annual growth target for 2014. Furthermore, perhaps the PBOC thought it was justified, given the high real cost of borrowing in China, and that the country's CPI had declined to just 1.6% YOY in October. The benchmark one year loan rate was cut by 0.4% to 5.6% and the benchmark one year deposit rate reduced 0.25% to 2.75%. Nevertheless, the deposit ceiling cap was increased to 1.2x (from 1.1x) leaving the deposit ceiling rate unchanged at 3.3%. That said, there was no reduction in the bank's Reserve Requirements Ratio (RRR).

The interest rate move, coupled with the recent announcement of more infrastructure projects and less onerous mortgage lending rules, all helped the stock market perform very well in the December quarter. Despite these stimulatory measures, we continue to believe that the Government remains genuinely committed to reforming the Chinese economy. Indeed lower interest rates help support the economy "near term" pending further reform and the emergence of new growth drivers in consumption, the service sector and from technology. With this in mind, we feel further interest rate reductions as well as adjustments to the Bank's RRR are likely in 2015, especially if the global environment remains challenging.

Lastly, it is worth mentioning that the "Occupy Central" protest in Hong Kong ended quite quickly and without great incidence. This was a satisfactory result for the Hong Kong Government and would have aided sentiment towards the stock market. Nevertheless the authorities materially underestimated the strength of popular opinion and unless further negotiations result in compromise, a repetition of events is likely before 2017's election of a new Chief Executive.

Taiwan

The Taiwanese market has also performed very well over the last three months, no doubt benefiting from the stellar performance of China and Hong Kong. The country's technology sector (nearly 60% of the market) is well placed to continue to benefit from global demand for iPad/iPhone componentry. Furthermore, the country's technology industry seems likely to continue to prosper as new electronic applications emerge in manufacturing (automation) and across a range of industries (e.g. automotive).

That acknowledged, Taiwan's efforts to establish the Cross Strait Service pact with China appear to have stalled following widespread demonstrations by the Sunflower Student movement. The public is increasingly concerned that future economic integration should be slow, with proper oversight, and must not jeopardise the country's economic and political autonomy. For example, a lot of Taiwan's service sector is dominated by SME's, which could face massive competition from larger Chinese companies at a time when doing business in China continues to be fraught with many challenges. It has generally been felt by the public that the Nationalist (KMT) government of President Ma has not handled or communicated these negotiations well. This was highlighted in the Democratic Progressive Party's (DPP) good performance in the recent November local elections. This does not bode well for President Ma defeating the DPP in the next national election to be held in the first three months of 2016. As the KMT is more favourably disposed towards China than the DPP it will be important to monitor how China handles the current situation. One final comment – China and Korea, the latter being a major competitor to Taiwan in several key industries, signed a Free Trade Agreement in the December quarter. From an economic standpoint this is likely to put further pressure on Taiwan.

Malaysia

Asia's worst performing market over the December quarter (-4.3% in A$ terms with net dividends) and second worst in calendar 2014 has been Malaysia. Malaysia is one of the few countries in Asia that is a net energy exporter and as such will be hurt economically by the dramatic decline in oil prices. For Malaysia, this will have a negative impact on both its fiscal account (less oil revenue) and its current account (a decline in its terms of trade). The situation has also had a negative impact on the Malaysian Ringgit.

Despite the above, Prime Minister Najib Razak has promised to improve Malaysia's fiscal position through cuts in subsidies and government expenditure, as well as broadening the country's tax base. Malaysia's fiscal deficit amounted to 3.9% of GDP in 2013 and the Government aimed to reduce this to 3.5% in 2014, 3.0% in 2015 and hoped to "balance the books" by 2020. Given that the Government's 2015 budget was based on an oil price of around US$100 a barrel, its 2015 budget deficit target seems unlikely to be achieved. Around 30-35% of Malaysian Government revenue comes from the oil and gas sector. Similarly, the country's expected current account surplus for 2015 will also be below prior expectations of around 5%.

Nevertheless Malaysia is being proactive and trying to improve its financial position. For example, the country announced in November the end to the decades old petrol and diesel subsidies. From 1/12/14 petrol and diesel prices will be fixed, based on a managed float centred on global market prices. While we see this as a positive move, subsidies will continue to exist on things like food staples, cooking oil and electricity. Lastly, Malaysia is introducing a 6% goods and service tax in April 2015 which seems a sensible move, albeit one that in the near term may put an added impost on businesses and households as well as negatively impacting on inflation. Despite these factors the Malaysian stock market continues to trade at a premium valuation relative to others in the region. This is because of ongoing support by government linked domestic institutional investors with large financial resources.

Korea

The Korean market also performed poorly over the December quarter and it was the worst performing market in A$ terms with net dividends over calendar 2014 (-2.8%). With the global economic outlook remaining challenging, global trade activity is not picking up as expected, to the detriment of export orientated economies like Korea. As we alluded to in out last quarterly, we applaud the initiatives Mr Choi (Finance Minister) and the Government are pursuing to boost domestic demand. Central to this are initiatives to get "cash rich" Korean companies to pay staff higher salaries and/or increase dividend payouts to shareholders. Nevertheless, the impact of these and other policies, such as a reduction in property loan to value ratios from 70% to 50%, have yet to impact the market.

In the interim, with poor credit and income growth fostering concern about deflation, Korea announced a KRW 41 TR stimulus package in July 2014 and cut its benchmark interest rate 25 bps in both August and October leaving the current rate at 2.0%. Another impediment to the performance of the Korean market continues to be the strength of the Won v Yen, with the former appreciating over the latter during calendar 2014. With Korea having a significant current account surplus, further monetary policy easing is very possible in 2015.

Thailand

Despite being virtually unchanged over the December quarter, the ability of the Thai stock market to absorb bad news has surprised many (including ourselves) over calendar 2014 (+27.3% in A$ terms with net dividends). A very large part of this must be due to the country's Long Term Equity fund. This offers a scheme whereby individuals can invest 15% of annual income (maximum THB 500,000) into equities free of tax, as long as they are held for a period of 5 years. Apparently these inflows are currently amounting to US$1bn per year. However, whether the National Council for Peace and Order, which is the name of the military council running Thailand, can restore order remains to be seen. A real chasm continues to exist in Thailand, which was summed up well by the National Geographic magazine in September 2014 when it stated:

> *"This rise in well-being has brought dissatisfaction with the glaring gulfs between rich and poor. As a result Thai Society has been undergoing a historic realignment in which the poorer classes, encouraged by ambitious politicians, have been seeking their share of the prosperity and clout that have always been beyond their reach. An alliance of Thailand's old political institutions – with the Palace, the bureaucracy, the judiciary and the military at their core – has been pushing back, defending the privileges of a hierarchical system that governs public and private life."*

India

Over the December quarter there were positive developments which enabled both the Indian and Indonesia markets to continue to perform well. Indeed, in A$ terms with net dividends Indonesia was the best performing market over calendar 2014 (+38.4%), followed by the Philippines (+37.3%) and India (+35.4%). The portfolio benefited from being overweight in all of these markets.

From a political standpoint in India, Narendra Modi's BJP further consolidated its power base by winning a majority in the Haryana State Election and a near majority in the Maharashtra State Election. More recently, the BJP secured a near majority in the Jharkhand State Election and came a "credible" second in Jammu and Kashmir. These four states account for 20% of India's GDP, 15% of its population and a number of important economic development projects. As such, from a political perspective the "wins" are important. The next important State Election will be held in Delhi in February 2015. The recent successes will eventually strengthen the BJP's position in the Rajya Sabha (Upper House) which the BJP does not control, thereby improving its ability to pass legislation and aid the reform programme.

Narendra Modi is also pushing ahead with new policies and reforms. In recent months, the Jan Dhan Yojana or People's Money Scheme was launched to provide financial inclusion for all Indians. The aim of this scheme is to provide a bank account, ATM debit card and insurance to the estimated 40% of households in

India who currently have no access to these products. An important incremental benefit of this scheme will be to allow social security payments to be made directly into the bank accounts of the "needy", thereby reducing wastage and corruption in India. The increasing use of India's electronic identification card is another positive.

One of the more significant reforms announced by the BJP over the December quarter was the decision to end government control of diesel prices, while at the same time raising natural gas prices. These moves will help modernise India's economy and were perfectly timed, given current low world oil prices.

This is a very significant move as, according to the National Institute of Public Finance and Policy, India spent US$23bn on fuel subsidies in 2013 and nearly 50% of this was accounted for by diesel. Both petrol and diesel prices are now linked to market prices in India. As part of the reforms, India also increased the regulated price of natural gas for domestic producers by 33% to US$5.61 per MMBTU. It is hoped that this will encourage exploration and drilling in India. The country continues to have a substantial energy deficit and remains dependent on fossil fuel imports to meet energy demand. For example, imports account for around 80% of India's oil consumption.

India is also in the process of auctioning off a huge quantity of coal blocks. This has been necessitated after the Indian Supreme Court last year cancelled some 215 out of 218 coal mine permits, declaring their allocations to be arbitrary and illegal. The Supreme Court also ordered that 42 mines, which were producing coal could operate for 6 months before they are also auctioned. This has occurred because over the last two decades, India has granted coal blocks at little or no payment to companies to overcome fuel shortages. This resulted in allegations of mismanagement and corruption and it seems implausible that some of these allegations were not without substance. With India heavily dependent on coal for power generation, "Coalgate" will continue to generate investment uncertainty until resolved. The coal blocks in question are now being resold. Aware of the importance of this issue (coal accounts for 54% of primary energy consumption in India), the BJP has already commenced an E-auction process for the coal blocks, the first part of which should be completed by March 2015.

While the BJP's lack of control of the Rajya Sabha continues to hinder the speed at which Narendra Modi's reform agenda is implemented, progress is being made. Further examples of this would be the tabling of the important GST bill and amendments to the country's labour laws.

Finance Minister Arun Jaitley's budget in the first quarter of 2015 will be very important, as will Reserve Bank of Indian Governor, Raghuram Rajan's decision, on whether to reduce interest rates. We are optimistic about both individuals making the appropriate decisions. Indeed on the latter, India's November CPI came in at 4.4% YOY (from double digit 12 months earlier) and the new Government seems committed to tackling the structural issues, e.g. subsidies causing inflation in India. The RBI currently targets CPI inflation at 4% (+/-2%) longer term, with the CPI basket being weighted around 50% by food, beverages and tobacco. We believe scope exists for interest rate reductions in India during 2015.

Indonesia

Over the last three months there have also been some positive developments emanating from Indonesia. In November, the subsidised price of gasoline was raised 30.7% to IDR 8500 a litre, while the subsidised price of diesel increased 36% to IDR 7,500 a litre. Based on current oil prices, there is now little difference between the subsidised price of gasoline and the market price, but for diesel the situation is not as favourable. Around 60% of fuel is subsidised in Indonesia and 40% is non-subsidised. Further reform in 2015 to link subsidised prices to market prices would be favourable. The positive news from higher subsidised gasoline and diesel prices is substantial cost savings. Indeed, this move is expected to save the Government more than US$8bn, with the capital being redirected to fund infrastructure, healthcare and education initiatives.

The move also demonstrates that new Indonesian Prime Minister, Joko Widodo, is serious about economic reform in Indonesia. Despite an associated improvement in the country's current account deficit and fiscal position, the negative news will be a "one off" increase in Indonesia's inflation. Indeed, Finance Minister Bambang Brodjonegoro expects inflation to rise 2% to 7.3%. Bank Indonesia almost immediately then raised its benchmark interest rate from 7.30% to 7.75% to manage inflationary expectations. We saw this as a very positive move. With the China related commodity boom now over, Indonesia needs to move ahead with further reform, e.g. land acquisition and labour initiatives to stimulate new economic growth drivers in areas like manufacturing. Like India under Modi, we believe the prospects for Indonesia should materially improve under Widodo.

The Philippines

Lastly, having been the second best performing market (+37.3% in A$ terms with net dividends) over calendar 2014, the outlook for the Philippines going into 2015 remains favourable. GDP growth in 2015 is estimated at 5.4% (source JP Morgan) and while the country's November CPI rate amounted to 3.7% YOY in November (source JP Morgan), it should now benefit from lower oil prices. While the pace of infrastructure development has been slower than expected, overseas remittances continue to grow (2013 = US$23 bn), as does business processing outsourcing revenue, which amounted to US$15.5bn in 2013. Nevertheless, with an election due in 2016 politics is an area to watch as we move through this year.

The Portfolio

The portfolio's geographic and industry exposure is currently as follows:

Geographic Exposure %	Portfolio	Benchmark	Difference
Hong Kong/China	27.2	38.4	-11.2
Indonesia	3.8	3.3	0.4
India	16.5	9.1	7.3
South Korea	8.3	18.2	-9.9
Sri Lanka	0.0	0.0	0.0
Malaysia	6.1	4.6	1.4
Philippines	7.1	1.5	5.5
Pakistan	0.0	0.0	0.0
Singapore	4.9	6.2	-1.3
Thailand	2.9	3.1	-0.2
Taiwan	7.4	15.5	-8.0
Australia	0.0	0.0	0.0
UK	1.4	0.0	1.4
United States	7.9	0.0	7.9
Percentage of Portfolio in cash	6.53		

Industry Exposure %	Portfolio	Benchmark	Difference
Energy	0.0	5.2	-5.2
Materials	6.1	4.8	1.2
Industrials	25.6	8.0	17.6
Consumer Discretionary	15.3	9.0	6.3
Consumer Staples	8.2	5.3	2.9
Health Care	2.1	1.9	0.2
Financials	28.3	32.6	-4.3
Information Technology	4.0	22.2	-18.2
Telecommunication Services	0.0	6.7	-6.7
Utilities	3.9	4.2	-0.3

The broad geographic and industry exposures discussed in recent times remain unchanged. As such, we remain overweight in India and ASEAN, but underweight in Korea and Taiwan, for reasons we have articulated previously. In regards to Hong Kong/China, while it would appear we are significantly underweight from the above statistics, the reality is different. Adding back Chinese companies listed overseas or those with significant business in China, the portfolio is a more modest 1.9% underweight. It is also worth highlighting that, within the portfolio's industry exposure that while it has no or limited exposure to information technology/telecommunication services, it does have 6.6% of its capital invested in good quality internet names.

Over the quarter and as we mention in greater detail later on, the portfolio added to its Hong Kong/China exposure. The first of those was an investment that increased the portfolio's exposure to China's internet market, while the second gave the portfolio a presence in China's automation market. A third new name was established in a leading family owned discretionary retailer. This company has an excellent broad and long history and trades on an expected 2015 P/E ratio of 11.8x and has a net debt to equity ratio of just 12.1%. One long standing investment in Hong Kong which had failed to live up to expectations in recent years was exited. This sale partially funded the three aforementioned new investments, along with some modest profit taking in the Indian market. Despite the run up in prices, we remain optimistic about India on a 3-5 year view, premised on our belief that Narendra Modi will be successful in implementing real structural reform in the country.

The portfolio's weighting in Malaysia has come down substantially in recent years and now stands at 6.1%. Indeed it is destined to come down further as we are in the process of selling one further stock due to corporate governance concerns. Post this sale we will hold just two investments in Malaysia having exited Jobstreet post the bid from Seek. One of the two residual positions in Malaysia was acquired in the last three months. This is an investment in a family run company, which is one of the top general insurance companies in Malaysia. The entity has a well-established and recognised board, together with an exemplary track record. Valuation criteria are reasonable, the dividend yield very respectable (nearly 5% is expected for 2015) and its balance sheet has net cash. In Singapore we sold a small residual position in an oil service provider, leaving the portfolio with three investments in the 'City State', after losing Goodpack to a KKR takeover bid in the prior quarter.

In Korea, we added one new position to the portfolio during the quarter. We visited this family owned manufacturing company which provides indirect exposure to the global healthcare industry, in July. The business has high barriers to entry and substantially lowers healthcare costs for users of its products. The company is a direct beneficiary of aging demographics and sources 50% of its sales from exports. New products and regulatory changes in important markets are added attractions.

International Visits – Observation and Comments

During the quarter, we visited Hong Kong and China. The following is an overview of some of the more important reflections from the trip.

Beverages

China's per capita consumption of dairy is 1/3-1/4 the global average. On the other hand, China's raw milk prices (an input cost) are the highest globally due to the lack of scale and modern farming. This industry has been receiving government support. The milk powder (competing input) price has halved versus last year, and is expected to be stable this year. Industry demand is growing at 5% in volume terms. The industry is relatively concentrated (top 2 have 50% share, with scale, branding and distribution competitive advantages). Margins for mainstream companies are currently low, reflecting high input costs and low selling prices. Whilst the portfolio already has a good weighting in this sector, we believe that there could be some further interesting opportunities.

Healthcare

The Chinese pharmaceutical market is the third largest globally (USD 20bn in size) behind the US and Japan. Market growth has slowed from 20% to 13-18% YOY. That said, healthcare spend in China is 5.5% of GDP which is lower than the global average of 10% (US in comparison is 20%). 95% of the population has some form of insurance coverage, however most spending is government controlled and takes place in public hospitals. The industry is consolidating (e.g. drug companies, distributors) whilst also opening up to greater private sector participation. There are a number of opportunities which we are evaluating in this sector.

Online

China has the largest number of internet users globally (641m), and this continues to rise as internet penetration in China is only 46%. The market is consolidated within certain segments. On a per capita basis, spending is much lower than in developed markets. Industry growth is very healthy at 10-15% and up to 25-30% YOY, depending on the segment. We continue to have a positive view about the sector and added a new stock to the portfolio post our trip.

Automation

The level of automation in China is 1/20-1/30th of that of developed markets. The industry should be growing at 5-10% YOY. Industry drivers are demographics, environmental, cost efficiency, safety and urbanisation. Barriers to entry in the sector are high and the industry is relatively concentrated (top 5 have 65-70% market share). The proportion of industry revenues sourced from replacement and after sales service has scope to grow from current levels. We initiated a new stock position in this sector in the portfolio post our trip.

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Market Outlook

While the Federal Reserve is forecasting real GDP growth of 2.6-3.0% in 2015 and 2.5-3.0% in 2016, its predictions in recent years have been “wide of the mark”. Nevertheless, should American growth recover from the 2.3-2.4% projected level in 2014, some normalisation of monetary policy seems likely. This would lead to higher US interest rates and the continuation of the US dollar rally. This historically has led to a tightening of monetary policy in Asia, which in turn has had a detrimental impact on regional financial markets. Nevertheless, the material decline in world oil prices and other commodity prices has left Asia much better placed to “weather this storm” should it eventuate.

While not trying to downplay the risks from higher US interest rates and US dollar strength, we continue to be sceptical that the consumption orientated US economy will be as strong as projected. Indeed, with the downturn in oil, food, and commodity prices lowering inflation rates and improving account deficits in Asia, many countries seem likely to hold or even lower their interest rates. For example, we think lower interest rates are likely in important Asian markets like China, India and Korea.

From an asset allocation perspective, we continue to favour markets that have real prospects for genuine reform. As such, we like countries such as India, The Philippines and Indonesia. China, in the process of battling deflationary pressures by cutting interest rates, is also an interesting case. The country has defied many predictions of economic demise in recent years and continues to move ahead with structural reform, while trying to maintain socially acceptable levels of economic growth. While risks continue to exist, the reform process should lead to real economic benefits over time. In the interim the growth and the service sector (E commerce), better flow of credit to the private sector, good job creation and real income growth are all to be applauded. Ongoing issues such as bank sector Non Performing Loans, an over-supplied property market, slowing GDP growth and lack of visibility associated with the reform programme are reflected in the portfolio’s modest underweight position in the Hong Kong/ China market. We believe that this reflects a “balanced view”. Our caution on world economic activity is reflected in our continued underweighting of export dependent markets like Korea and Taiwan.

Over the period 2009-2014 the MSCI World Index has appreciated 70.4% in A$ terms with net dividends. In contrast, the MSCI AC Asia ex Japan Index has only increased 43.7% over the same period. In a risk averse world investors have clearly favoured developed markets over emerging markets. Nevertheless, it must be remembered that one of the factors helping the MSCI World Index is the large weighting in multinational companies sourcing significant sales and profits from emerging markets. Indeed, for the Dow Jones just under 50% of its sales during 2013 came from overseas. If Asia experiences a hard landing, Wall Street will not be immune! Lastly, JP Morgan estimates that the Global Index is selling on an estimated 2015 PE ratio of 15 times versus 12.2 times for Asia Pacific ex Japan, while the price/book value ratios are 1.9 times and 1.3 times respectively. Overall Asian valuations continue to look reasonable and economic reform is starting to gain momentum again in important markets, which we view very positively.

CI ASIAN TIGER FUND
QUARTERLY REPORT

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

DECEMBER 2014

Portfolio Characteristics

	Portfolio	Benchmark	Variance
Number of Stocks	51.00	597.00	-546.00
Beta	0.87	1.00	-0.13
P/E (X)	14.43	12.28	2.16
Yield (%)	2.43	2.77	-0.35
P/B (X)	2.64	1.68	0.97
Historical EPSg(%)	12.34	13.07	-0.73
Forecast EPSg(%)	12.79	6.91	5.88
Return on equity (%)	18.42	13.68	4.73
Dividend Cover (x)	2.81	2.94	-0.12
Net Debt/Equity (%)	-8.59	30.05	-38.64

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