CI ASIAN TIGER FUND
QUARTERLY COMMENTARY REPORT

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

For current performance information please refer to the Monthly Performance Report.

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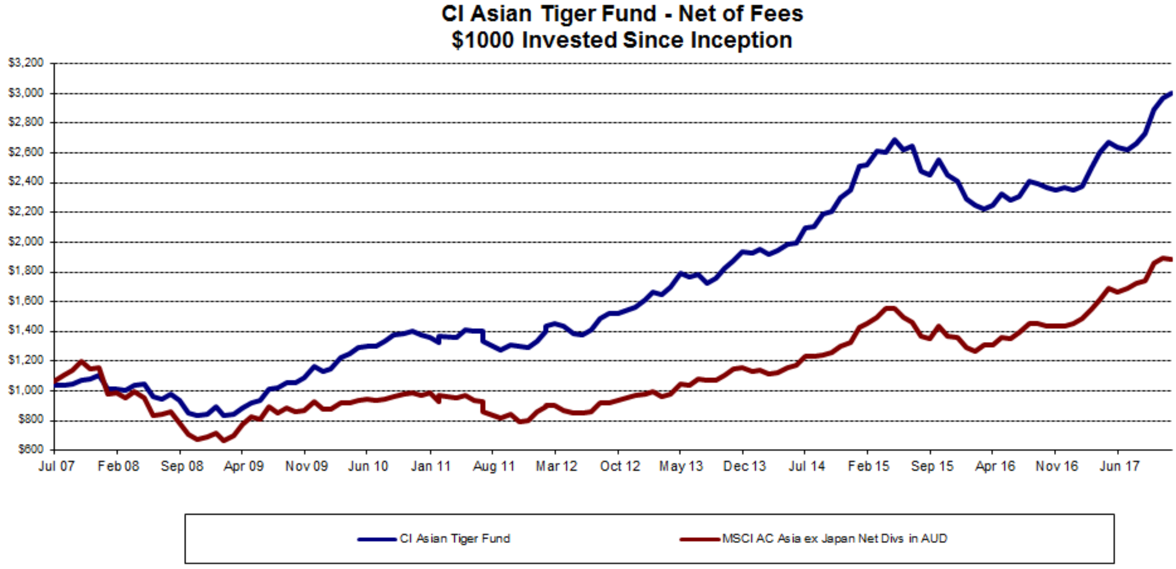
"Those who know the truth are not equal to those that love it and those who love it are not equal to those who live it." Confucius

"Time spent laughing is time spent with the Gods." Japanese proverb

"When with yourself watch your thoughts. When with others watch your speech." Tibetan proverb.

	****PORTFOLIO**	**#BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTH	10.30%	8.57%	1.73%
ROLLING 1 YEAR	28.25%	31.20%	-2.95%
ROLLING 2 YEAR	12.82%	17.88%	-5.06%
ROLLING 3 YEAR	9.82%	12.40%	-2.58%
ROLLING 5 YEAR	15.56%	14.24%	1.32%
ROLLING 7 YEAR	13.54%	9.96%	3.58%
ROLLING 10 YEAR	12.43%	5.02%	7.41%
SINCE INCEPTION*	12.87%	6.23%	6.64%
SINCE INCEPTION^	256.55%	88.70%	167.85%

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



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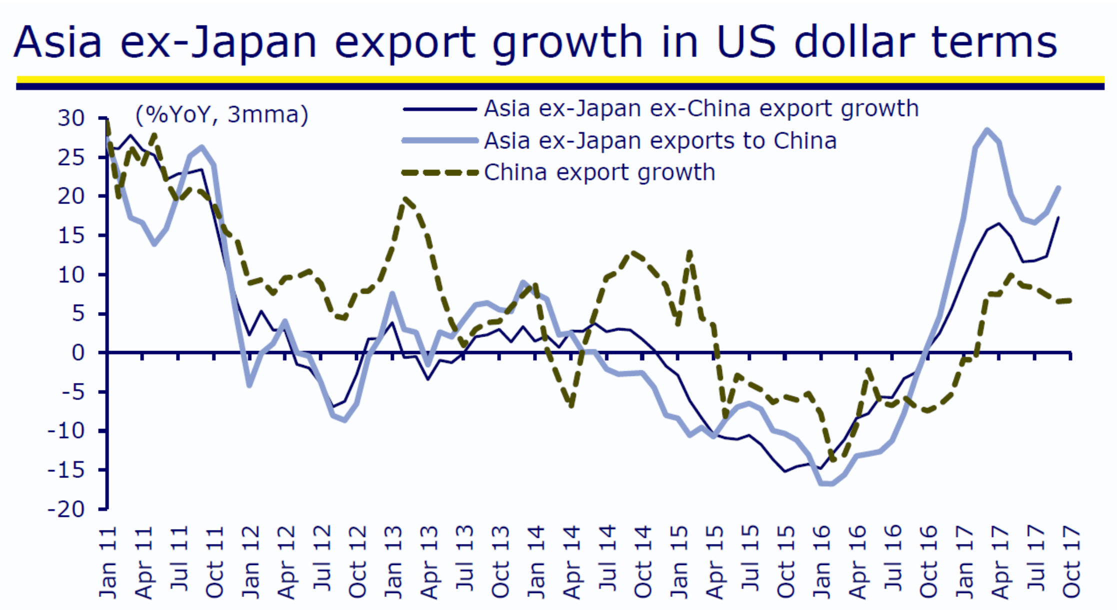
Market and Portfolio Performance

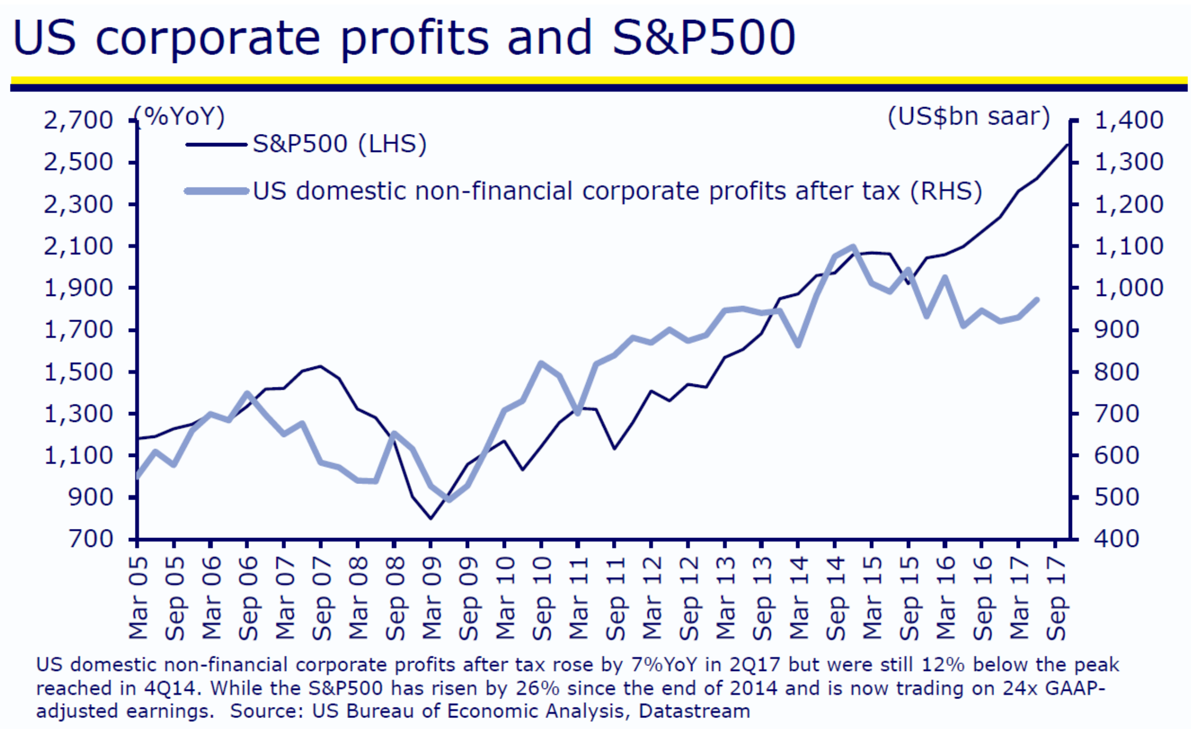
All things come to those who are patient and the performance of Asian stock markets in calendar 2017 is a timely reminder of the substance of this comment. According to JP Morgan, the cumulative annual inflow to Emerging Market equities was US$77bn in 2017 of which US$46bn came through ETF’s. The last time any real growth had occurred was 2012. Within Asia, China was the standout performer, followed by Korea and in both countries the impetus came from the internet and technology sectors. In calendar 2017, the MSCI AC Asia Ex Japan Index rose 31.2% (A$ terms/net dividends), compared to the gain of 14.8% in the MSCI World Index. Gains in local currencies were even higher. Specifically over the last three months the MSCI AC Asia Ex Japan index rose 8.6% (A$ terms/net dividends), which again out-paced the gain of 6.1% in the MSCI World Index.

Asia’s performance has been assisted by the improvement in global growth, which in turn has lifted world trade. All the Asian countries in our benchmark with the possible exception of the Philippines are likely to have experienced year on year 2017 GDP growth. Inflation as a rule remains muted on the back of low oil and food prices, while manufactured goods prices remain subdued. Interest rates in Asia remain modest, albeit not at the levels seen in America, Europe and Japan. This is hardly surprising, as Asian countries have not employed the quantitative easing policies, used by those previously mentioned developed regions. Most Asian nations continue to run healthy current account surpluses (exceptions – India and Indonesia) and exports by the region and inter-Asian trade have also improved.



Asia ex-Japan ex-China exports rose by 14.9%YoY in US dollar terms in the first 9 months of 2017, following a 3.6% decline in 2016. Asia ex-Japan exports to China rose by 22%YoY in January-September, while China exports increased by 7.4%YoY in Jan-Oct 2017. Note: Include exports in US dollar terms for the 9 major Asia ex-Japan ex-China countries under CLSA coverage, domestic exports for Hong Kong and Singapore. Source: CEIC Data, CLSA

While the passing of the American tax reform bill is cyclically positive for the country’s economy in 2018, it remains to be seen if it can sustain growth for any length of time. For example many large American companies already pay a tax rate far below the statutory rate. It is also impossible to know how much corporate capital will be repatriated from overseas and what proportion of this will be invested in "bona fide" capital expenditure. The latter is a critical ingredient for the creation of an investment cycle. Meanwhile, the Federal Reserve has started the process to normalise its balance sheet and raise interest rates. Indeed in December, the Federal Reserve raised interest rates by 0.25% to 1.25-1.50% and the market is expecting 2-3 further increases next year. Post tax reform, President Trump now seems likely to focus on infrastructure development to further sustain the US economy. Normalisation, tax reform and infrastructure spending all are superficially positive for the American economy, but implementation will not be easy and the costs substantial. Relative to some we remain more sceptical about the eventual outcome. Nevertheless, with the American stock market at close to all-time highs, albeit with the help of "financial engineering", investors are focusing on the positives. In a world bereft of income, this partially reflects the lack of alternatives, but does carry risks. In an American context one of these has recently been highlighted by divergence in performance between earnings growth and the stock market. In short, share market gains are being driven by P/E expansion. This is well highlighted by CLSA in the following chart:-



(Source: CLSA)

Despite the buoyancy in Wall Street, the American 10 year Government Bond Yield has not changed significantly in recent months. This implies bond investors are more sceptical about the strength of any sustained cyclical rebound in the American economy. The same could also be said of investors in the US$ which has remained weak. Then again, a deflationary environment continues to exist globally and many have serious doubts about the ease in which balance sheet normalisation will occur. With the global environment plagued by massive leverage, significant financial complexity and industrial disruption caused by new and innovative technology, many of these concerns appear legitimate. Caveat emptor – many traditional methods of valuation, such as Robert Shiller's CAPE ratio, suggest that equities are overvalued. Acknowledging, the fact that markets can remain "overvalued" and "undervalued" for extended period of times, it is important to remember this. While there is always a chance that it "may be different this time", history would suggest otherwise.

The performance of Asian markets over the last quarter is highlighted below. As mentioned, China was the standout performer, rising 8.0% (A$ terms/net dividends) over the quarter and a massive 42.6% (A$ terms/net dividends) over calendar 2017 (see table below). Notwithstanding its strong performance last year, the MSCI China index remains 10% below its 2007 peak. Its valuation (PE of 13x) is reasonable compared to its long term historical average (PE of 11x) and forecast earnings growth this year is expected to be very presentable (circa 17%). Going into 2018 we remain positive on China and retain an overweight position in this market.

MSCI Data with net dividends	December Qtr 2017 in A$ terms	December Qtr 2017 in local currency terms	12 month to December 2017 in A$ terms	12 month to December 2017 in local currency terms
AC World	6.1%	5.3%	14.8%	19.8%
AC Asia ex JP	8.6%	6.2%	31.2%	35.6%
China	8.0%	7.7%	42.6%	55.0%
Hong Kong	6.9%	6.7%	26.1%	37.2%
India	12.2%	9.3%	28.5%	30.5%
Indonesia	8.6%	9.0%	15.0%	25.1%
Korea	11.7%	4.1%	36.4%	30.6%
Malaysia	8.2%	3.4%	15.8%	12.8%
Philippines	6.8%	4.6%	15.4%	25.1%
Singapore	10.4%	8.4%	25.5%	25.5%
Taiwan	4.4%	2.1%	18.1%	17.8%
Thailand	9.8%	7.0%	24.5%	22.4%

As we have mentioned before, returns from individual Asian markets vary substantially from "year to year". Sometimes the results can be very surprising, especially if a longer term time perspective is taken. For example, many investors would not have picked Thailand to have been the best performing market over the last 10 years and India the worst. This is why diversity is so important and it is important to be cognisant that China/Hong Kong now account for 50% of the benchmark.

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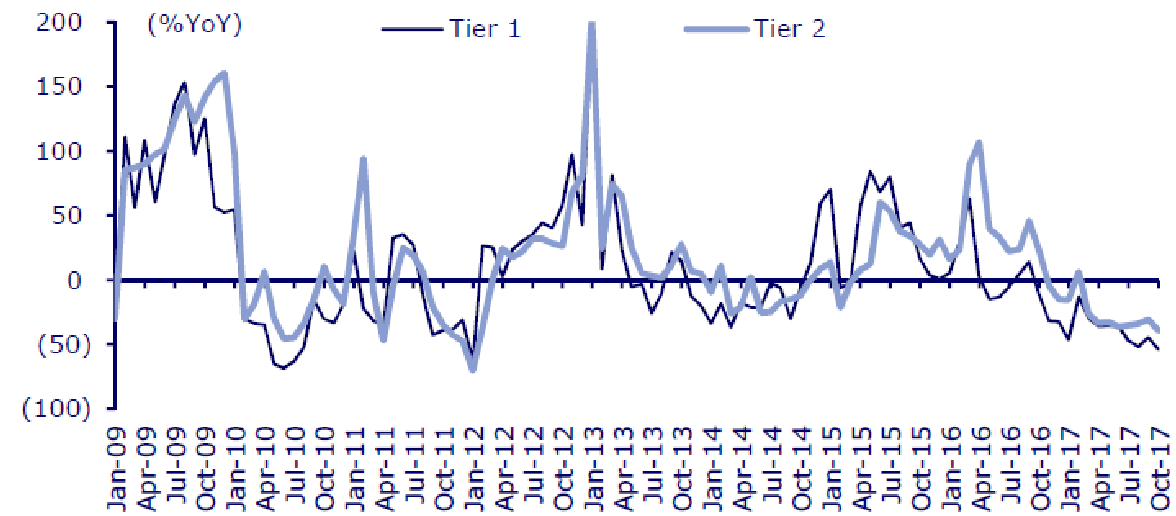
Annualised Returns by Market in A$

Index Name	1yr 30-Dec-2016	3yr 31-Dec-2014	5 yr 31 Dec 2012	10 yr 31 Dec 2007
MSCI AC Asia ex JP	31.20	12.41	14.25	5.02
China	42.63	14.46	16.32	4.17
Hong Kong	26.06	13.17	16.51	6.53
India	28.46	10.35	15.22	1.66
Indonesia	15.00	6.99	8.52	6.41
Korea	36.36	16.10	12.90	4.85
Malaysia-EM	15.77	0.18	4.18	3.81
Philippines	15.38	4.32	11.98	8.56
Singapore	25.50	5.79	9.49	4.81
Taiwan	18.07	11.79	16.15	6.79
Thailand	24.54	10.87	11.46	10.42

China is likely to record GDP growth of around 6.8% in calendar 2017, but economic activity is likely to slow next year. This will stem from stringent enforcement of financial and environmental regulations as well as lower property activity (see chart below).

YoY sales in four tier-1 cities and 14 tier-2 cities tracked by CRR



Source: Local Housing Bureaus, Soufun, China Reality Research (CRR)

(Source: CLSA)

Going forward the Chinese economy will continue to benefit from strong fixed asset investment, which continues to grow 7-8% per year. This and high credit growth, albeit the latter has recently moderated, still have potentially negative implications for the country's leverage ratios. According to the PBOC, NBS and JP Morgan in the 3Q of 2017 China had a Debt/GDP ratio of 270% (56% government, 48% household and 166% corporate). In 2007 China had a Debt/GDP ratio of just 149% (42% government, household 18% and corporate 89%).More positively; Supply Side Reform and industry consolidation should help SOE profitability, which in turn should improve their credit worthiness and therefore bank earnings. The Chinese economy will also benefit from favourable trends in consumption. Interestingly, while household consumption as a % of GDP amounts of 39.2% (source CIA Factbook), it is estimated by CLSA that consumption now accounts for over 60% of GDP growth. Allied to this, the service sector continues to grow and accounts for 51.6% of GDP (source CIA Factbook). Indeed, income growth will expand further, aided by demographics (reduced labour supply), improving industrial profitability and the expanding service sector. These factors and wide availability of consumer credit will encourage consumption, by China's expanding and increasingly affluent middle class.

Following the 19th National Party Congress held in Beijing in October 2017, China's leadership is taking a stronger stance in trying to curb growth in local government debt and shadow banking. It remains to be seen what impact these measures have on economic growth. One outworking, augmented by the prospect of higher inflation, has been the spike in 10 year government bond yields. Some now believe that while China's leaders are now committed to limiting the growth in China's indebtedness, they are less focused on reducing its total amount. Perhaps they hope future growth will rectify the situation. Nevertheless "debt" is an issue for China, as it is for most countries around the world and it remains a risk. The same could be said of global interest rates, which remain artificially low.

A lot of China's (and Asia's) outperformance over the last 12 months has been concentrated in "mega cap" stocks. This is highlighted in the following table, which shows the major stocks in the portfolio's benchmark, their valuation ratings and their performance over calendar 2017.

	MSCI AC Asia Ex Japan Benchmark Weighting %	**PE Ratio Forward Consensus Factset**	**Calendar 2017 US$ Returns %**
Tencent (China)	6.17	39.2	113
Samsung Electronics (Korea)	4.83	7.0	61
Alibaba (China)	4.14	27.0	96
TSMC (China)	3.96	15.7	41
AIA (China)	2.14	18.7	53
CCB (China)	1.61	6.0	26
Baidu (China)	1.34	25.1	42
China Mobile (China)	1.29	11.3	3
ICBC (China)	1.23	6.3	41
Ping An (China)	1.13	13.7	112
Hon Hai (Taiwan)	1.04	10.1	27
SK Hynix (Korea)	0.86	4.6	95
HDFC (India)	0.84	29.6	46
BOC (China)	0.81	5.3	16
Reliance Industries (India)	0.78	15.3	83

While many of these companies have grown profitability well in recent years, such concentration of performance is unusual from an historical perspective. While the trend has been helped by the growth in passive investment and ETFs, its sustainability is being questioned by some investors. As a result, there is momentum building in the “growth to value” rotation trade. It is also worth highlighting, that the market capitalisations of many of these companies are huge, particularly those operating in the internet/technology area. This makes sustaining historical growth rates even more challenging, at a time when valuations rates are already elevated. That said, valuations are more reasonable when compared to those achieved by American companies in the late 1990s. While government regulation of internet / technology is a longer term hazard for companies in the industry, it seems less of a threat in China. For one thing, the internet is already controlled in China. On the subject of internet/technology stocks, a good indication of how the Chinese economy has evolved over the last 10 years is nicely illustrated by the following example. Clear Media is one of the largest outdoor media companies in China and the following table highlights how the composition of its client mix (by industry) has changed (% terms) over the last decade.

2007		1H2017	
Telecom	22%	Ecommerce	30%
Beverages	18%	IT	20%
Cosmetics / Toiletries	8%	Entertainment	8%
Food	8%	Retail / Consumer Services	7%
Household appliances	5%	Beverages	6%
Realty	5%	Food	5%
Pharmaceuticals	5%	Transportation	5%
Retail	5%	Realty	4%
IT	4%	Telecom	3%
Others	20%	Others	12%
	100%		100%

Clearly the shift to ecommerce / IT, which is now embedded in China’s domestic consumption theme, has been remarkable. Like so many emerging nations, China has significantly bypassed fixed line telephony and gone straight to the mobile phone while similar trends are evident with usage of both the personal computer and credit cards relative to mobile phones. Ecommerce sales now account for around 15% of total retail sales in China, compared to a little over 8% in 2015 (source JP Morgan). Huge growth in the internet/technology sector now means it accounts for 41% of the MSCI China market, compared to just 24% of the MSCI USA market. For Korea (45%) and Taiwan (62%) the numbers are even larger. While the Indian BPO/IT sector is always a much discussed topic, at 14% of the Indian market, it is much smaller and nearly entirely export focused. Whether this changes in India is subject to debate. In the internet/technology area India is a more open market than China, which is more protected by government. As such, a lot of big verticals (search, social media etc) are already dominated by American companies. In ecommerce, privately owned India companies like Snapdeal and Flipkart are up against Amazon, with the latter determined to win, having been less than successful in China. That acknowledged, potential does exists in smaller verticals like the SEEK or REA Group equivalents

Over the course of Calendar 2017, the Hong Kong market has benefited from increasing Southbound Inflows, despite tighter regulations announced more recently. Chinese investors have been attracted to the Hong Market because of valuation discounts, good yields, currency hedges and for diversification purposes. The relevant statistics are:

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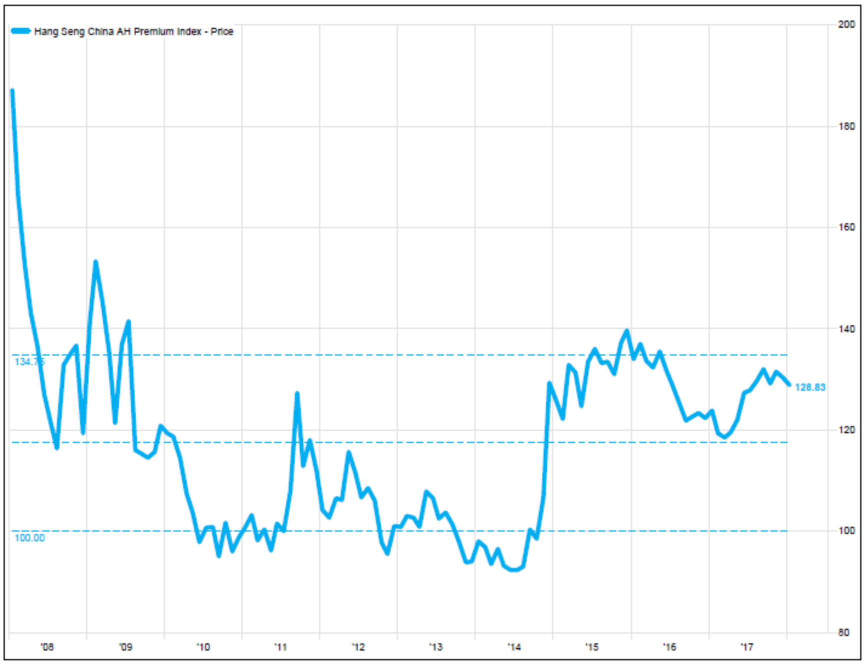
Southbound net inflows	2016:	Rmb 211.2bn	2017:	Rmb 308.1bn
Northbound net inflows	2016:	Rmb 60.6bn	2017:	Rmb 199.7bn

Northbound flows have also been growing and look set to increase further. Further momentum will come from the inclusion of A shares in the MSCI emerging market index which is expected to commerce in May 2018.

Interestingly A Shares in China still trade at a good premium to their counterparts the H Shares in Hong Kong. This highlights the appeal of the latter to Mainland investors.

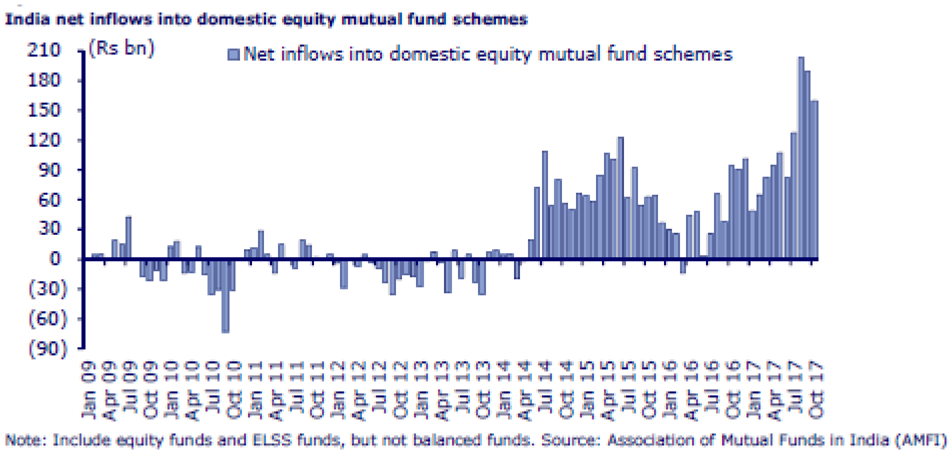


The Korean stock market rose 11.7% (A$ terms / net dividends) over the December quarter and 36.4% (A$ terms / net dividends) over the calendar year. Over both time periods this made it the second best performing regional market. The recovery in the world economy has lifted Korean exports, with particularly strong growth coming from semiconductors. Within the semiconductor industry growth has been particularly strong in the memory market. This has been driven by positive DRAM and NAND market conditions (supply/demand) and has resulted in higher product prices. Looking to 2018, growth from this area is still expected to be healthy.

Domestically, the economy should benefit from improving trends in consumption. This will be driven by the government's fiscal stimulus, which aims to increase household disposable income. An important driver will be increased government expenditure in areas like welfare, health, education and public administration. This in turn will increase employment opportunities and raise incomes. Among other things, funding will come from higher tax revenues. The Korean economy will also benefit from the normalisation of its relations with China, following the THAAD (Terminal High Altitude Area Defence) systems dispute. This had a particularly negative impact on Korea's tourism, consumer and entertainment industries. The Bank of Korea (BOK) is expecting GDP Growth of 3.0% in 2017 and has a very conservative estimate of 2.9% for 2018. Both are likely to be surpassed. With favourable growth BOK raised its policy interest rate from 1.25% to 1.50%. This recent increase was the first increase in 6 years. Low government indebtedness and a significant current account surplus have also resulted in continued Korean Won strength.

All this is positive, but from an investor standpoint, ongoing corporate governance reform is crucial to the long term performance of the market. An important part of this will involve Korea’s National Pension Fund Service (NPS). To put this in perspective; the NPS was worth Korean Won 618tr as at October 2017. Its asset spilt was 39.4% equities, 50.2% bonds and 10.4% alternative investments. The NPS has Korean Won 243tr invested in equities of which Korean Won 134tr is invested domestically. With the KOSPI and KOSDAQ combined worth Korean Won 1923tr this means that the NPS owns 7% of the Korean market. As such, the NPS is in a position to exert real influence over Korean corporates. With this in mind it is hoped the NPS will formally adopt a stewardship code in 2018, which will fortify its fiduciary responsibilities. One good outcome would be higher dividend payout ratios.

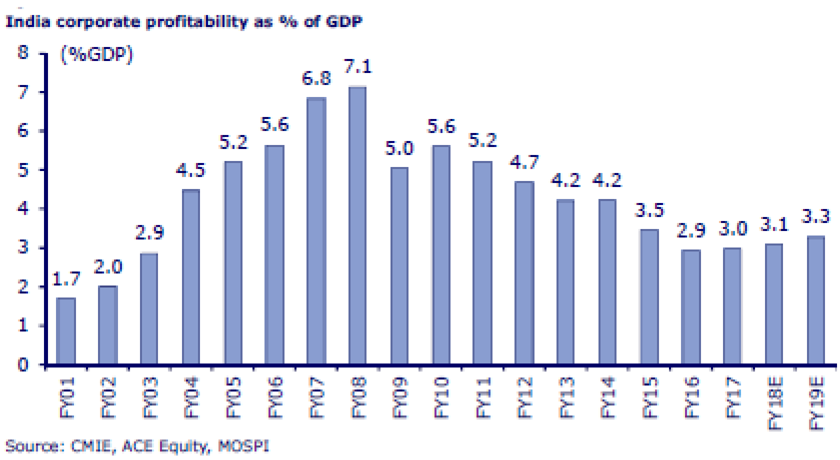
While the Indian market has not performed as “relatively” well as the Chinese and Korean markets, it was still the third best performing market over calendar 2017 rising 28.5% (A$ terms / net dividends). Furthermore, it was the best performing market over the December quarter. Since the election of Prime Minister Modi in 2014, overseas investors have continued to invest in the market, albeit the recent impetus has come from domestic investors as is illustrated below.



(Source: CLSA)

Indeed, domestic investors are playing an increasingly active role in a number of Asian stock markets. This augers well for the future as it will counteract overseas capital flows, which can be volatile. In India, the main immediate driver for increased retail participation appears to be the “crackdown” on “black money” caused by both demonetisation (December 2016) and the Real Estate Regulation and Development Act (May 2017). Clearly, a lot of Indians believe that despite initial problems, Prime Minister Modi’s many reforms will ultimately be good for the Indian economy. We agree with them.

In another positive move for the Indian economy, the Government announced in October 2017, its long awaited plan to recapitalise the country’s Public Sector Banks (PSB). This involves the government injecting Rs2.11lakh crore into PSBs. Some 84% of this will come from recapitalisation bonds and the balance via budget allocations and equity raisings. This was very necessary as the asset quality of Indian Banks continues to deteriorate. According to the Reserve Bank of India (RBI), in 2016/17, the Gross Non-Performing assets (GNPA) ratio of Indian banks amounted to 9.3%. Segmented, PSB's had a GNPA ratio of 11.7% (prior 9.3%), whereas the Private Sector Banks had a GNPA ratio of 4.1% (prior 2.8%). In the past stressed loans have been impeding the PSB's ability to lend and fund growth. The recapitalisation should help alleviate this impediment and help create an investment cycle in India. In marked contrast to China, were credit growth has exceeded GDP growth for many years, in India bank credit rose only 7.3% in 2016/17. While the Indian stock market is "not cheap", Indian corporate profitability as a % of GDP remains low by historical standards. This we think highlights value latency in the market.



(Source: CLSA)

In the recent state election the BJP managed to retain Gujarat, albeit with a much reduced majority. Some of the issues related to demonetisation and the introduction of GST, which had an adverse near term impact on small traders and businesses. Furthermore both also "dampened" Indian economic activity, with negative implications for employment. India needs to create circa 10m jobs a year for its young and expanding workforce. Many Indians voted for Modi assuming he could achieve this, while at the same time reducing inequality. While Modi is well positioned to win the next General Election (2019), many feel he must now prioritise giving more support to India's urban and rural poor, together with its aspiring youth. Housing and infrastructure development will continue to be an important part of this going forward. Doing this, while maintaining fiscal discipline, will be a difficult "balancing act". Finance Minister Arun Jaifley has a fiscal deficit target of 3.2% this year (excludes Indian States) but recent developments suggest it is more likely to be around 3.5%.

The Portfolio

A number of changes were made to the portfolio over the December quarter. From a positioning perspective, the portfolio remains diversified by country, industry, subsets of value (SOV) and clusters. Driven by demographics and enabled by technology, Asia is evolving from an export led manufacturing economy to one which is more closely integrated and domestically orientated. Going forward we believe there are 5 observable clusters which the Fund thinks are particularly important. Summarised these are:-

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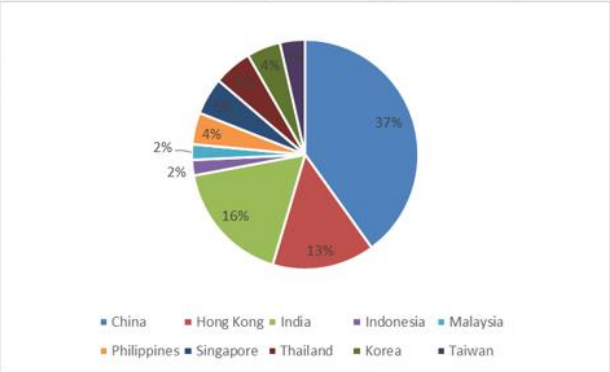
Cluster	Explanation	Examples	% Fund
Competitive Advantage of Asian Nations	Industries in which countries have a natural competitive advantage	High tech manufacturing (Samsung Electronics, Taiwan Semiconductor)	19
Aspirational Middle Class	Basic needs, goods and services	Financial services (BDO Uni-Bank, AIA Insurance) FMCG (Vinda) Housing (HDFC)	44
Experience over Things	Seeking experiences over basic needs due to rising affluence	Health & wellness (Shanghai Fosun, Dabur)	10
Technology Disruptors and Facilitators	Disruption of old business models due to technology and innovation	E-commerce (Alibaba) Internet (Tencent)	16
Infrastructure and Sustainable Urbanisation	Environmental and infrastructure development	Gas utilities (Towngas) Transportation (Ashok Leyland) Telecommunications (ZTE)	11

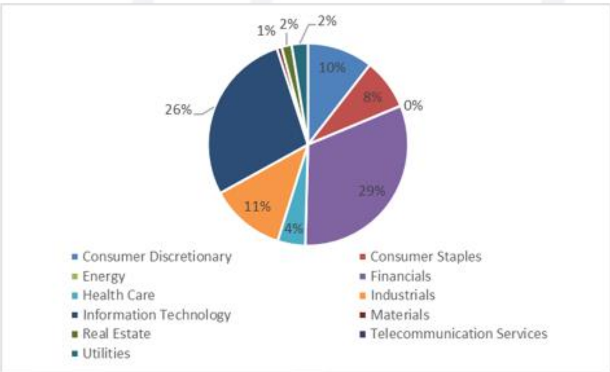
Country

- Biggest exposures are China, India and ASEAN (collectively)



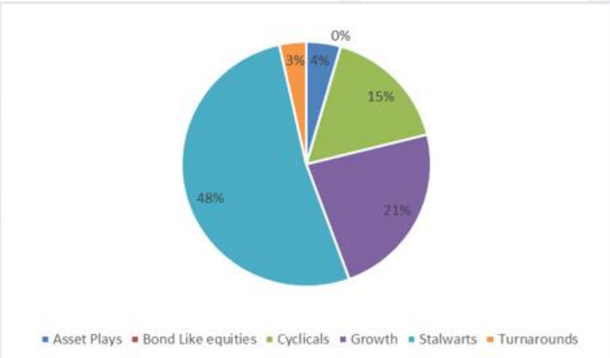
Industry

- Financials, IT and Consumer (direct and indirect) the most attractive sectors



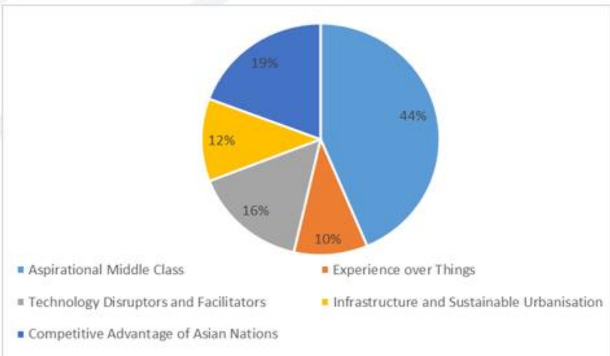
SoV

- Stalwarts are bedrock, Growth alpha, diversification from the rest



Cluster

- The five mega-trends we are excited about



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New additions to the Fund over the last three months included Alibaba (China), New Oriental Education (China), Nexteer (China), and Dabur (India). The new investment in Alibaba was partially funded by exiting Naver. The Fund's holding in Zhaopin was exited, given the privatisation offer made by SEEK International, Hillhouse Capital Management and Fountainvest Partners. Investments in Amara Raja Batteries, Cleanaway, HCL Technologies and Hollysys were sold, while the holding in Shanghai Fosun was "downsized" following strong share price performance.

We initiated positions in Alibaba and New Oriental during this fiscal quarter. Founded in 1999, Alibaba is the largest eCommerce platform in the world with gross transaction value of over US$550bn[1]. It has an all-encompassing internet platform with a leading payment and fintech arm (Ant Financial), a dominant cloud business (AliCloud), a popular online video site (Youku), and a smart logistics system (Cainiao). We believe Alibaba is still at an early stage, of utilizing its vast volume of commercial data, to create an advertising empire that could rival Facebook and Google in scale and sophistication. Alibaba's value proposition has extended far from simple display or search advertising. It follows consumer behaviours across its entire ecosystem via a unified Alibaba login, gaining insights from users' eCommerce purchase history, offline mobile payment records, online video viewing history, and social media activities. It then converts these data points into commercial signals and enables its advertisers to accurately target customers without compromising user experience. Besides its core advertising business, we also see tremendous value in Ant Financial and AliCloud as future growth drivers. We believe Alibaba can sustainably grow free cash flows at 35% per annum over the next 5 years and find its valuation of 30x NTM FCF[2] compelling.

We also initiated a position in New Oriental, the largest private education company in China. The company's focus is on after-school tutoring for primary and secondary school students and English training for students planning on going overseas. The Chinese college entrance exam is one of the toughest in the world, with <10% of the students admitted to the top 150 universities each year. As a result, after school tutoring is viewed as an essential tool for students to advance academically. Similar to Korea and Taiwan, Chinese parents have a high willingness to pay for such services, spending an aggregate of over US$60bn in 2016[3]. The industry is fragmented with two large players (New Oriental and Xuersi) commanding only ~6% overall market share combined and many small mom-and-pop institutions. Both New Oriental and Xuersi have considerable competitive advantages in quality of teachers, proprietary content, network and branding over their smaller peers. We believe these two companies will further consolidate the market over the next 3-5 years, as technology innovations such as live broadcasting, accelerate their pace of expansion into lower tier cities, while improving quality of services. New Oriental is run by a high quality founder, Michael Yu, who exudes humility, focus and genuine passion for teaching and education. At 30x NTM FCF[4] for ~30-35% free cash flow growth, we believe New Oriental's valuation is reasonable for a very high quality company.

The Fund also initiated a position in a global tier 1 automotive components supplier called Nexteer. The company's products enjoy high entry barriers and long product life cycles. With its leading technology, the company is well positioned to benefit from electrification and advanced driver-assistance systems industry trends. The shares sell on a forward PE in the low teens which we think is attractive, given

[1] Company reported figure for the fiscal year ended in March 2017
2 Next Twelve Months Free Cash Flows based on Cooper Investors Projections
3 Source: Macquarie Research, June 2017
4 Next Twelve Months Free Cash Flows based on Cooper Investors Projections

solid prospects for earnings, which are underpinned by positive ASP trends and rising contributions from the company's Asian and European divisions. This purchase was funded by the sale of our holding in a Chinese automation systems supplier. Notwithstanding that industry prospects appear favourable longer-term, the company has been facing increased competition in some of its segments.

In India, we are exiting HCL Technologies which operates in an industry that is facing structural issues. We are redeploying a part of the sales proceeds to invest in Dabur India, which is India's leading branded ayurveda (a herb-based traditional form of healthcare treatment) company. We observe a trend of increasing formalisation of the unorganised ayurveda industry and increasing consumption of mainstream consumer staple products with herbal ingredients (e.g. oral care and hair care). Dabur appears well placed to take advantage of this opportunity, given its scientific-driven product development approach and about 70% of its domestic product portfolio is herbal-oriented. On top of this, the company should also be a beneficiary of rural recovery in India.

Portfolio turnover over the last 3 months was 7%, compared to 13% for the financial year ended June 2017. At the end of December 2017 the fund had a cash position of 8.1%.

Trip Notes

We had a productive trip to China, Hong Kong and Korea during this quarter, covering over 40 companies. Over half of these meetings were with our top rated contacts, a result of our continuous effort in deepening local networks. Two trends stood out during our meetings - the continued rapid rise of big data, and the more comprehensive and tighter government regulations.

Data has quickly become one of the most important tools in the Chinese business world. Daily business decisions such as what to produce and how to advertise are increasingly moving from human judgements to being driven by data. Large internet platforms such as Alibaba and Tencent are at the forefront of big data innovation, whilst traditional businesses such as Ping An (insurance) and New Oriental (education) are increasingly utilizing their own proprietary data to attract and better serve customers. We believe China is already the world leader in big data, thanks to a large (750 million and counting) and mobile internet-obsessed user pool. Benefits of big data are mutlifold – higher operational efficiency, quantifiable and trackable results, and quicker response time to the fast changing consumer preferences. We believe over the next 5 years, progressive businesses that invest in big data appropriately, will build a formidable moat over their less data-savvy peers.

On the regulation front, we observed tighter regulations across banking, industrials, and technology sectors. Regulations have clearly defined goals (e.g. prevention of systemic risks for banks) and tend to favour large state-owned enterprise over smaller, privately owned businesses (e.g. environmental policies and supply side reform shut down many mom and pop operators). We find the Chinese regulators to be increasingly sophisticated with fast, responsive time to dynamic market conditions, evidenced by the timely regulations on internet lending during the second half of 2017. However, we perceive stronger-handed government regulations as a risk and will watch this trend carefully

From a company perspective, we had meetings with a wide variety of companies. Below are some of the takeaways from meetings with portfolio companies:

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Shenzhou - Operating trends continue to be positive for this garment and fabric manufacturer, whose management team we rate very highly. Expansion outside of China is the main driver driven by a mix of capacity expansion and productivity. The company continues to benefit from supplier consolidation at its customers and has been gaining share due to its superior technical capabilities, scale and vertical integration. Perhaps our only gripe with the stock is valuation.

Vinda - Through e-commerce, Vinda has become the market leader in the Chinese tissue segment. This reflects being an early mover, appropriate investments in production and logistics, and a differentiated customer offering. There is a 10-20 year penetration story for tissues in China. On the other hand, there is significant optionality around the company's personal care business, where returns are depressed, due to heavy investment in sales and marketing. We also expect Vinda to benefit from its parents' expertise in feminine care and incontinence products, where the latter is #1 in both Europe and globally.

Vitasoy - China represents > 60% of group EBIT and has become the main growth driver for this long-established beverage manufacturer. The China business is expanding from its traditional stronghold of Guangdong helped by e-commerce (provides market entry) and CVS (a growing channel in more established areas). In China, Vitasoy is very focused on its core soymilk and to a lesser extent tea products, which is a point of difference against its more diversified peers (whether in dairy or snack foods). The company has also been judicious in how it funds expansion in China and is able to allocate a proportion of sales to advertising and promotion to support this.

Chow Sang Sang – After a challenging three years, conditions in Hong Kong finally appear to be turning the corner for this venerable jewellery retailer. Operating leverage should be positive given negative rent inflation and continued cost and capex discipline. The China business remains in steady state, with expansion opportunities available in its existing 100 cities. We think valuation support is high at current price levels.

Market Outlook

Calendar 2017 was a very good year for Asian stock markets and further good relative performance is expected. Political, economic and governance reforms continue to occur. Good examples would be President Park's impeachment in Korea, no quantitative easing policies, Modi's reforms in India and China's supply side initiatives.

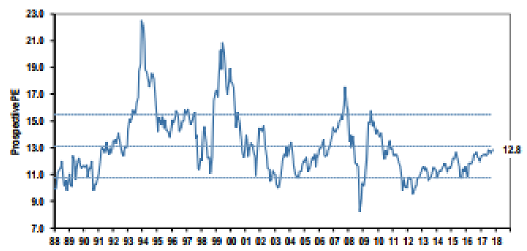
The demographic profile of the region is also at an interesting juncture. While society is aging in China, the country has a large and growing middle class, which is becoming increasingly prosperous. China is also making progress in moving from "export led manufacturing, to a domestic demand driven consumption based economy". The country's service sector is expanding, with the internet/technology sector a key enabler. This is important, as China seeks to move from a capital intensive resource heavy economy, to a knowledge based one. Hopefully the demographic based dividend of yester years will be replaced by a digital one. This all presents an array of opportunities for investors, whether it is in the internet/technology sector or others. A good example of another sector with appeal is healthcare. Today this only accounts for 2.4%% of MSCI China compared to 13.4% of MSCI USA and Chinese society is only just starting to age.

In contrast to China, other countries in the region like India and most of those in ASEAN, are well placed to receive demographic dividends in future years. Nevertheless, this will be heavily dependent on appropriate government policies promoting institutional development, education and infrastructure. Innovation, through the use of technology, is also critical, if countries are to avoid the middle income trap.

As we move into 2018 we feel that Asian valuations remain reasonable. This is illustrated by the charts below, which look at various long term investment metrics. While these are off cyclical lows, they remain well below high points. Other positives are that growth is improving, ROE's have scope to increase and that many Asian companies now pay reasonable dividends.

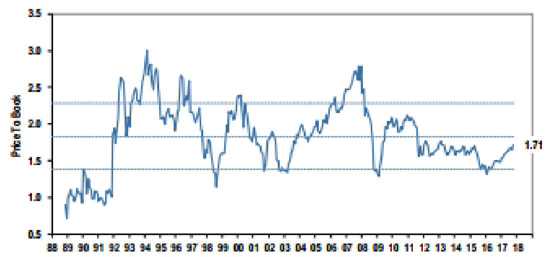
Valuations in Asia are in line with their long-term average

Chart 59: Asia Pac ex-Japan Prospective PE



Source: BofA Merrill Lynch Asia Pac Quantitative Strategy, MSCI, IBES

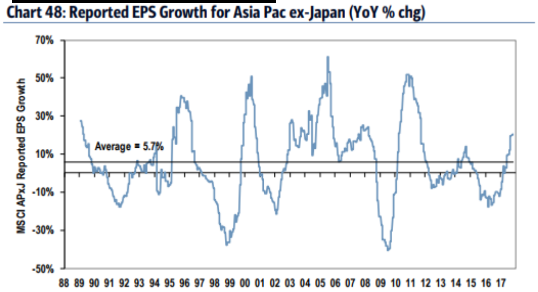
Chart 61: Asia Pac ex-Japan Price-to-Book Ratio



Source: BofA Merrill Lynch Asia Pac Quantitative Strategy, MSCI, IBES

Growth is picking up

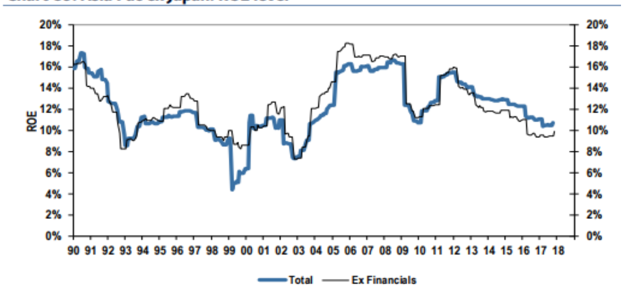
Chart 48: Reported EPS Growth for Asia Pac ex-Japan (YoY % chg)



Source: BofA Merrill Lynch Asia Pac Quantitative Strategy, MSCI, IBES

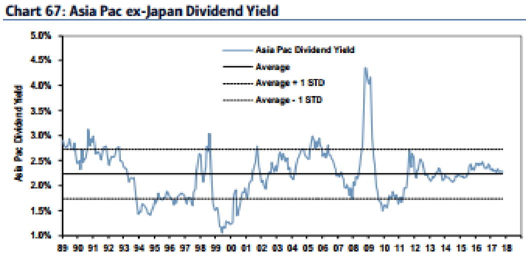
Returns have upside

Chart 89: Asia Pac ex Japan: ROE level



Source: BofA Merrill Lynch Asia Pac Quantitative Strategy, MSCI, IBES, Worldscope

Chart 67: Asia Pac ex-Japan Dividend Yield



Source: BofA Merrill Lynch Asia Pac Quantitative Strategy, MSCI, World Scope

Corporate balance sheets

	Debt/Equity	Debt/MktCap	Int. Coverage
Japan	0.76	0.54	13.3
Australia	0.64	0.33	2.9
China	0.58	0.85	5.8
Hong Kong	0.33	0.40	10.1
India	0.80	0.30	5.0
indonesia	0.51	0.14	8.8
Korea	0.50	0.72	11.5
Malaysia	0.60	0.42	5.4
Philippines	0.77	0.33	5.7
Singapore	0.49	0.70	6.2
Taiwan	0.41	0.21	17.0
Thailand	0.81	0.36	8.5

Lastly it is worth highlighting that Asia remains relatively undervalued, when compared to developed markets.

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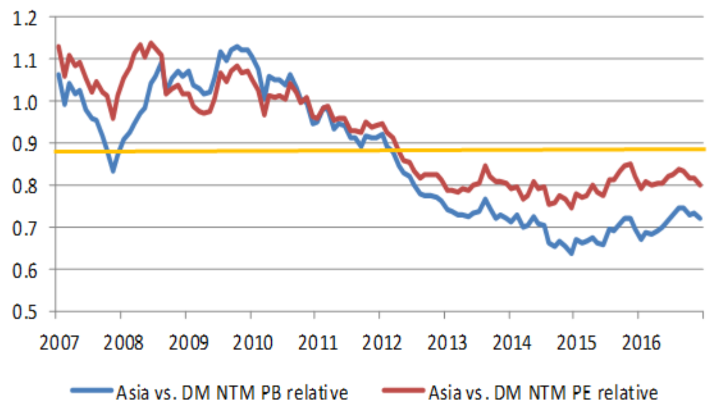
Asia is relatively under-valued



In contrast to Asia, it has to be said, that Australia has had little genuine reform for a long time. While the high quality resource sector has excellent “de facto” exposure to Asia, the same cannot be said of most industrial stocks. Furthermore, an elevated housing market, coupled with high household debt and little income growth, has the potential to negatively impact on the Australian banking sector. In conclusion, a negative outworking of the acquisition of large international companies like Westfield and News Corp, is that it will further diminish the size and diversity of the local market. This is a shame, but it does make a compelling case for international diversification and Asia should be an important part of this.

Portfolio Characteristics

	Portfolio*	Benchmark	Variance
Number of stocks	44	647	603
Beta	0.90	1	-0.10
P/E (x)	17.20	12.91	4.29
Yield (%)	1.76	2.55	-0.79
P/B (x)	2.81	1.77	1.04
Historical EPSg (%)	16.19	12.56	3.63
Forecast EPSg (%)	18.34	13.69	4.65
Return on Equity (%)	15.98	13.69	2.29
Dividend Cover (x)	3.30	3.04	0.26
Net Debt/Equity (%)	-6.15	17.02	-23.17

Source: UBS PAS

(Portfolio characteristics are those of the CI Asian Tiger Fund).

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