CI ASIAN TIGER FUND
QUARTERLY REPORT

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

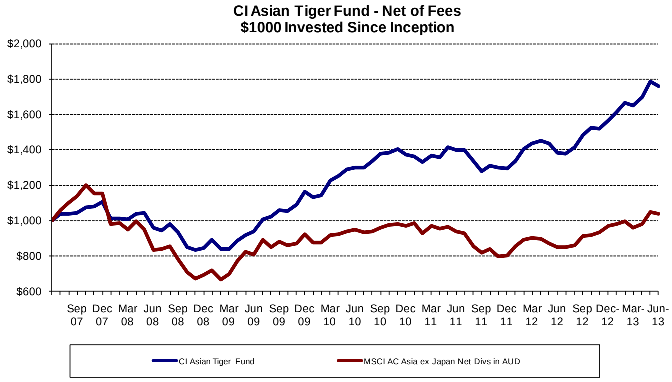
JUNE 2013

I believe in confessing one's mistakes and correcting them. Such confession strengthens one and purifies the soul… Mahatma Gandhi.

When we see men of contrary character, we should turn inwards and examine ourselves…Confucius.

Goodness speaks in a whisper, evil shouts… Tibetan Proverb.

	****PORTFOLIO**	**BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTH	7.24%	7.87%	-0.63%
ROLLING 1 YEAR	29.79%	21.91%	7.88%
ROLLING 2 YEAR	14.20%	5.01%	9.19%
ROLLING 3 YEAR	12.98%	3.02%	9.96%
ROLLING 5 YEAR	15.48%	4.46%	11.02%
SINCE INCEPTION*	11.97%	0.61%	11.36%
SINCE INCEPTION^	97.00%	3.69%	93.31%



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

Market and Portfolio Performance

Fuelled by cheap money and bountiful liquidity world markets performed well over the last financial year. Perhaps it is fitting that investors received a reminder in the final quarter of 2012/13, that the situation has been artificially created by central bankers and that the position is not sustainable long term. Indeed, the policy continues to have a more positive impact on asset prices relative to economic growth around the world.

Over the last 12 months, global investors have focussed more of their attention on developed markets and emerging markets have underperformed. Thus over 2012/13 the MSCI AC World Index (with net dividends) in A$ terms has risen 30.5%. In comparison the MSCI AC Asia Ex Japan Index (with net dividends) in A$ terms has risen just 21.9%. These gains have obviously been inflated by the recent weakness in the A$. Asia's 'laggard performance' relative to the developed world and Australia (+24.1% in A$ terms with net dividends) was materially influenced by China. The Chinese market was the second worst relative performer (+17.8% in A$ terms with net dividends) in the region after Korea (+12.1% in A$ terms with net dividends). Given that China and Korea have respective weightings of around 23% and 19% in the MSCI AC Asia Ex Japan Index, the overall drag on the index performance from these markets was not inconsequential. The other important feature of the June quarter 2013 was the dramatic decline of the gold price and the rather resilient performance of the oil price. The latter appears to be focusing on the ongoing turmoil in countries like Syria, Iraq, Egypt and Turkey rather than what has been "dubbed" America's energy revolution, built around shale gas. Nevertheless, the hostilities in the Middle East are very concerning and have the potential to re draw political boundaries. The last time this occurred was in the partitioning of the Ottoman Empire in 1920 (Treaty of Sevres) and the ramifications are still being felt today.

While the ATF did not have any exposure to the Philippines (+40.9% in A$ terms with net dividends), the portfolio did benefit, from being overweight Thailand, Hong Kong and Malaysia, which were the next best performing indices in the MSCI AC Asia Ex Japan during 2012/13. Furthermore, the portfolio's materially underweight position in China and Korea aided performance.

During the quarter the decision was taken to reduce the carrying value of the ATF's investment in China Metal Recycling (CMR) from its last traded price of HK$9.43 to HK$2.50 given that the stock remains in trading halt (this is discussed further in the Portfolio section below). This restricted the portfolio's out-performance to just under 8% and was clearly a disappointment to us.

MSCI Data (with net dividends)

	June Quarter 2013 – Local currency	June Quarter 2013 – A$	Financial Year ending June 2013 – A$
MSCI AC World	+1.0%	+13.4%	+30.5%
MSCI AC Asia Ex Japan	-3.4%	+7.9%	+21.9%
MSCI Australia	-2.0%	-2.0%	+24.1%
MSCI China	-6.8%	+6.2%	+17.8%
MSCI Hong Kong	-4.7%	+8.6%	+31.5%
MSCI India	+3.2%	+7.5%	+19.5%
MSCI Indonesia	-4.8%	+6.1%	+28.4%
MSCI Malaysia	+8.4%	+21.0%	+28.8%
MSCI Philippines	-3.5%	+3.8%	+40.9%
MSCI Singapore	-4.3%	+6.7%	+23.3%
MSCI Korea	-7.6%	+2.5%	+12.1%
MSCI Taiwan	+1.8%	+15.7%	+27.8%
MSCI Thailand	-3.2%	+4.1%	+32.6%

Source: Factset

The simultaneous under performance of emerging markets and China will not surprise some investors as they do tend to be correlated. Other asset classes dependant on China, such as commodities and gold have also performed poorly. While developed countries around the world have focused on 'easy money', the exact opposite has been occurring in China. With the leadership transition now complete in China, Xi Jinping and his colleagues, appear focused on rebalancing the country's economy, even if this means accepting a slower level of growth. This has coincided with comments that the Federal Reserve, may reduce quantitative easing later this year and perhaps cease it in 2014. This coupled with continuing restrictive monetary policy in China, aimed at moderating credit expansion and 'cooling' the property market, has caused a significant contraction in the global 'carry trade' and rattled financial markets.

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While seasonal factors played a part in the increase in China's short term interest rates and associated tight liquidity, other factors were clearly present as well. The Peoples Bank of China (PBOC), which is not independent and reports to the State Council, appeared to purposely 'sit on the sidelines' for a period of time. Perhaps there is a growing realisation, that bank lending to inefficient and debt laden local governments and state owned enterprises (SOE's) needs to be reduced, to contain financial risk and prepare markets for reform. Furthermore, despite 'double digit' credit growth, Chinese GDP growth has slowed. Clearly China needs to look at its current economic model, focus on its suitability for future years and contemplate changes.

The new leadership of Xi Jinping (President), Li Keqiang and Lou Jiwei (Minister of Finance) all appear to be pro-reform and financial market liberalisation. However, getting consensus from a party with many vested interests and an array of politically connected investors will not be easy. Indeed, any reforms will have implications for the communist party's own power base in China, which is intertwined with State Owned Banks, local governments and government controlled companies and investment vehicles. Should developments occur, it would also be important to get the focus, sequencing and pace of any reforms correct from a timing perspective. For example, if financial market liberalisation occurred before real sector reforms, this could exacerbate any economic downturn. These questions, while important for China, are also crucial for markets like Australia, which is leveraged to China through commodities. A clearer indication of whether reforms from China's new leadership are forthcoming, should be evident following debate by the Central Committee in October 2013. Lastly, it should be remembered that any substantial economic reform, undoubtedly raises questions about China's own political system. As such, any reforms seem likely to be both gradual and measured, which seems appropriate given the enormity of looking after some 1.3 billion people. This should be remembered, as the economic performance of "the West" has hardly been "stellar" over the last decade, with much smaller numbers and many inherent advantages.

In conclusion, it is worth posing the question 'what might reforms look like in China'? Again this is a difficult question to answer. From a historical perspective, interest rates have been below the level of inflation in China. This has caused a misallocation of resources and asset bubbles. As such, the further liberalisation of interest rates from State control appears to make sense. Increasing the availability of credit to small and medium sized businesses, many of which currently depend on China's shadow banking system, would also be positive. Another example might be allowing private sector companies to invest in sectors controlled by SOE's. Lastly, reforms to the country's archaic urban residency and land rights system would be welcomed in China.

China undoubtedly faces some near team challenges, the resolution of which will necessitate bold decisions and incorporate change. This could require recapitalisation of certain segments of the economy and may well require certain government entities to be restructured, acquired or in certain instances to go into receivership. Nevertheless, China has the financial resources to undertake such measures. China has achieved much over the last two decades and this gives us encouragement that the country has the ability to "navigate through these testing times". Much will depend on the new leadership, so let's hope they are "cut from the same mould" as Deng Xiaoping, the great reformist leader of China between 1978-92. For the sake of all resource dependent nations around the world, let's hope China is successful.

Korea's performance over 2012/2013 was disappointing relative to the performance of MSCI AC Asia Ex-Japan Index. A negative for the market was subdued economic growth in China, which accounts for nearly 25% of Korea's exports. In addition, another important factor has been the weakness in the Yen, which has improved Japan's competiveness relative to Korea in global export markets. Korea's performance would have been even worse had not Samsung Electronics, which comprises over 20% of the index not performed so well. India, which we discussed extensively in our last quarterly report, was the third market in the region which underperformed the index. Looking forward, countries in Asia that run current account deficits, such as Australia, India, Indonesia and more recently Thailand, are more likely to be vulnerable to currency depreciation, from sales of bond and equity investments by foreign investors. This is clearly a negative for those markets. The 14% fall in the A$ / US$ cross rate between mid-April and the end of June 2013, is a reminder that when sentiment changes, it changes rapidly.

Aside from the Philippines, the best performing markets over the 2012/13 financial year in A$ terms with net dividends, were Thailand (+32.6%), Hong Kong (+31.5%), Malaysia (+28.8%) and Indonesia (+28.4%). Thailand has benefited from Yingluck Shinawatra's populist policies, strong domestic consumption and an accelerating investment cycle, stimulated by government infrastructure development. Notwithstanding ongoing property tightening measures, the Hong Kong market performed well in A$ terms, aided by a good dividend yield.

Despite winning less than 47% of the popular vote, the ruling Barisan Nasional party of Prime Minister Najib Razak won 60% of Malaysia's parliamentary seats and was returned to power. The removal of political uncertainty created a powerful rally in the Malaysian stock market which ended 2012/13 strongly. Other positives for the market include the RM1.4tr Economic Transformation Programme (ETP), the Iskandar development in Johor and seemingly better relationships between Malaysia and Singapore (e.g. the high speed rail network). More recently the World Bank stated that it expected Malaysia's economy to grow 5.1% in both 2013 and 2014, underpinned by strong consumer and business spending.

Indonesia's stock market also performed well over the last 12 months, notwithstanding the importance of commodity exports e.g. coal, palm oil etc. to markets like China. The country has recently appointed Mr Agus Martowardojo as the new central bank governor. Almost immediately the Bank of Indonesia increased its policy rate from 5.75% to 6.00%. This move was seen as an effort to 'cool the economy' and assist the Indonesian rupiah, which has suffered from a growing current account deficit. The fuel price rise (gasoline +44% to IR6,500 a litre / diesel +22% to IR5,500 a litre) announced in June was also seen as a "long overdue", but favourable development. While this will result in a temporary increase in inflation to 7-8%, there will be a significant decline in subsidies. These recent moves have strengthened Indonesia's economic outlook.

Looking back over the last 12 months virtually all the best performing markets in Asia came from ASEAN (Association of South East Asian Nation) member countries. ASEAN with its population of nearly 600m and a GDP (current prices) of around US$2tr has significant growth potential and the ATF continues to be overweight the region.

The table below gives readers a feel for current valuation levels across different markets in Asia.

Asian Valuation Table

	P/E Ratio		Dividend Yield		Earnings
Country	**Historical Trough***	**2013 (E)**	**Historical Peak ***	**2013 (E)**	**Growth 2013 (E)**
USA	11.6x	14.8x	4.0%	2.2%	8.0%
Asia Pacific Ex Japan	11.1x	11.2x	4.9%	3.3%	13.7%
China	7.2x	8.5x	5.7%	3.8%	9.0%
Hong Kong	10.8x	14.6x	5.7%	3.1%	6.0%
India	9.6x	13.8x	2.6%	1.8%	14.9%
Indonesia	4.8x	14.3x	5.9%	2.8%	11.5%
Korea	7.7x	7.7x	2.9%	1.1%	17.6%
Malaysia	9.1x	15.5x	5.1%	3.2%	1.6%
Philippines	8.8x	18.1x	4.9%	2.5%	10.3%
Singapore	8.1x	13.5x	5.9%	3.6%	-6.7%
Taiwan	12.5x	14.8x	7.8%	3.2%	48.9%
Thailand	7.7x	12.0x	5.9%	3.6%	21.1%

Source: JP Morgan

* Refers to the historically lowest valuation of the MSCI Indices since January 1991

The Portfolio

During the quarter, we made a number of changes to the portfolio.

We have established a position in one of India's leading insurance and healthcare companies. We believe the insurance industry in India has good long-term prospects given its positive correlation with rising per capita GDP and the emergence of a large working age sector of the population. This is borne out by insurance penetration in India of 4.1% versus 6.6% globally and over 10% in developed Asian countries. We think the worst of regulatory changes have passed and the life insurance industry should resume growing positively from FY14 (March year end) onwards. The current share price of the company which the fund has invested in provides an attractive entry point as it effectively values just the company's life insurance business, whilst ignoring the rest which are substantial in their own right.

Our long-standing position in CIMB has been increased (the number 2 Malaysian and numbers 4/5 Indonesian bank). We like CIMB for its well-managed Malaysian franchise as well as niche position in Indonesia, which leverages on its technology, foreign exchange, cash management and trade finance expertise. Valuation metrics (Price / earnings, Price / book) appear sensible, both standalone as well as relative to history, and the sector.

We have opportunistically added to our positions in the mining services segment, where the portfolio has two holdings. Both are market leaders in their respective categories (consumables; albeit of a different nature). In addition to the resource sector each company also has substantial exposure to other segments which are less volatile (being infrastructure and environmental), which should provide a base level of earnings support.

Conversely, we have taken profits in a number of cyclical and defensive names, where share prices have moved appreciably above appraised “fair” value, or where a lesser weighting, in light of increasing economic uncertainty, is more prudent. We have also exited our position in an Australian gold mining stock, which despite a very credible management team, seems likely to suffer from having high cost operations.

By geography, the portfolio is 37% invested in Hong Kong/China, 31% in the ASEAN region, 10% in India and 10% in North Asia, with a small position in Australian listed companies with direct linkages to Asia. By industry, the portfolio is 27% invested in Financials, 24% Consumer, 23% Industrials, with Healthcare, IT and Utilities comprising the rest. Many of our holdings in the Financials, Industrials, Healthcare and IT sectors provide direct and indirect exposure to the Asian consumer, which is a theme we are favourably disposed to. Approximately 8.5% of the portfolio is held in cash.

Last quarter we wrote about the fund’s holding in CMR and explained that the stock was in trading halt. Following further delays by the company in the release of documents to the Hong Kong Stock Exchange (which was a condition of trading resumption) we have taken the decision that the last traded price was no longer a true reflection of the valuation of the stock and are currently carrying the position at HK$2.50. This internal valuation reflects the continuing illiquidity and uncertainty imposed by the trading halt. We continue to monitor the situation and maintain a dialogue with the company. We would be happy to provide further detail should readers wish.

International Visits – Observations and comments

ASEAN

Recently we spent two weeks visiting Indonesia, Singapore, Malaysia and Thailand as part of our annual trip across a variety of ASEAN countries. We also made a side visit to Taiwan to visit some specific companies of interest.

While growth in ASEAN countries has slowed, primarily due to the weak external environment, it continues to be very respectable. Furthermore inflation remains benign, albeit that it will increase to a temporary “one off” 7-8% in Indonesia next year, for the reasons mentioned earlier.

Country	Real GDP Growth (%YOY)		CPI Inflation (% YOY average)	
	2012	2013	2012	2013
Indonesia	6.2%	6.1%	4.3%	4.7%
Malaysia	5.6%	5.0%	1.2%	2.5%
Philippines	6.6%	5.5%	2.9%	3.6%
Singapore	1.3%	1.6%	4.3%	2.5%
Thailand	6.4%	5.0%	3.6%	3.8%

Source CLSA

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Many Asian corporates still have 'vivid memories' of the Asian financial crisis. Among the lessons learned were to limit leverage to conservative levels, avoid foreign currency dominated debt and where possible build reoccurring resource streams.

While on our trip to South East Asia many companies spoke positively about the plan to implement the ASEAN Economic Community (AEC) by 2015. With favourable demographics and strong economic growth, ASEAN countries would benefit from a single market without trade barriers and improved infrastructure. That acknowledged, the full implementation of AEC by 2015 will take considerable 'political will' and the most likely scenario will be its progressive implementation over a number of years. Nevertheless the potential for the ASEAN remains very exciting, with the following comments from CLSA encapsulating the situation well:-

- 'The past decade has seen ASEAN's population expand at 1.3% pa since 2000 to the current 593m, with the bloc to add 1.2% annually to reach 621m people by 2015'
- 'The population in a number of ASEAN countries is young with 37% of people on average under 20 years of age'.
- 'The potential size of the labour force (population age 15-64) in ASEAN will grow at 1.4% annually over the next decade, increasing by 56m people to 444m by 2020'.
- 'The ASEAN middle class is currently relatively small at 17.7% of the population (103m out of a total 582m) as median incomes in major economies outside of Singapore and Brunei remain low. This is set to rise to 26% by 2015 with an additional 54m people (to 157m) joining the middle class.'

Apart from the AEC plan to create 'one market', it also wants to increase competition and foster infrastructure development, which will improve connectivity within the region. Such initiatives will enhance ASEAN's ability to compete in world markets. Currently 25% of ASEAN's trade is with member states, 7% with China and the balance from the rest of the world. China now accounts for 15-20% of ASEAN's exports and the country is clearly an important part of the regions ongoing economic development. As such, if China suffers a prolonged economic slowdown, due to its desire to re balance its economy, ASEAN will not be immune.

There are a variety of major infrastructure projects under consideration in South East Asia. One of the most exciting is the proposed RM12bn high speed rail network, linking Kuala Lumpur to Singapore, in around one and half hours of travel time. The project is targeted for completion around 2020 and it should also aid the development of the Iskander Malaysia project in Johor. This project which covers an area three times greater than Singapore, aims to develop a 'Shenzhen style' hinterland to the 'Lion City', where people 'live work and play'. Industries such as education, healthcare, media, hospitality and technology have already been established and more are in the pipeline.

Another infrastructure project in South East Asia with much merit is the Greater Mekong Sub Region. This designates a development project, formed by the Asian Development Bank, to link rural hinterlands to trade centres through road and rail networks along designated economic corridors.

Thailand, Cambodia, Laos, Myanmar and China will all benefit, but Thailand's 'central location' seems likely to confer on it incremental advantage e.g. as a transportation hub for the region. This should lead to the development of a substantial logistics industry in Thailand, which will augment its existing comparative advantages in industries such as automotive, food, healthcare and tourism.

Many companies in ASEAN already have a substantial or growing presence in the region. Examples would include Axiata (Malaysia), CIMB (Malaysia), CP Food (Thailand), IHH (Singapore), and Parkson Berhard. Having visited some of the aforementioned companies, we know most remain committed to further regional growth.

The slowdown in the Chinese economy and its impact on commodity prices, has negatively impacted on Indonesia's coal sector. Other negatives have been resource nationalism and a suggestion that China may impose a ban on low caloric coal (highly polluting). Not unsurprisingly, these factors have impacted negatively on mining contractors and heavy equipment manufacturers. Aside from an indirect exposure through Jardine Strategic, the ATF is not represented in this area.

Around 65% of Indonesia's car population is made up of only three models. Two of these, Avanza and Innova are from Toyota and one, Xenia comes from Daihatsu (a subsidiary of Toyota). Furthermore, some 90% of cars sold in Indonesia are 'people movers' able to seat 7 people. Car penetration in the country is still only 2.8% compared to 27% for motorbikes and scooters. Honda and Yamaha have 90% of Indonesia's motorcycle and scooter market. Consumers in Indonesia view cars like 'currency' and second hand values are very high by global standards. Again, the ATF's exposure to this area of the Indonesian market is largely through Jardine Strategic (indirectly).

Within the automotive markets in the various countries the portfolio invests in, we tend to favour batteries, tyres, oils and filters. These provide exposure to fast moving consumables which are replaced on a regular basis. As such reoccurring revenue streams are high and sustainable. Interestingly, some heavy equipment companies in Asia source 40-50% of their net profit from reoccurring revenue which comprises service, maintenance, spare parts and rebuild activities. By way of an example the Indonesian heavy construction equipment mainly comprises Komatsu (43%), Hitachi (21%), Caterpillar (19%), Kobelco (13%) and others (4%).

Bank Rakyat practices micro banking rather than micro financing, which is undertaken by the government. Indeed, the bank's focus is collecting deposits first and then lending to consumers within their local communities. Bank Rakyat's loan to collateral ratio is around 80%. The ATF has an investment in Bank Rakyat, while it also has indirect exposure to the Indonesian banking market through CIMB in Malaysia

Notwithstanding that DBS's proposed purchase of Bank Danamon remains unresolved, it sees itself 'very much as an Asian bank'. In contrast, it sees Standard Chartered as an 'emerging market bank' and HSBC as a 'global bank'. The 'vibe' around DBS's new CEO Mr Piyush Gupta appears very good, with recent results having met expectations.

Investors may be interested to know that Temasek has recently published its review for the year ended March 2013. As a successful long term investor in Asia, this always makes for interesting reading. Over the course of the year the value of its portfolio increased 8.8% to S$215bn. Temasek made a net profit of S$11bn in 2013. Over the last 10 and 20 years Temasek's Total Shareholder

Returns (TSR) have been 13% and 14% respectively. Since inception in 1974 with a portfolio of S$354m, Temasek's TSR has amounted to 16%. At the end of 2013 Temasek's group shareholder equity amounted to S$169bn.

The investment strategy of Temasek is built around four themes, which may be summarised as:-

1. Transforming economies
2. Growing middle income populations
3. Deepening comparative advantages
4. Emerging champions

Temasek's investment portfolio is concentrated and comprises largely of equities. Some key details are as follows:

Geographic Exposure

	2013	2012
Asia Ex Singapore	41	42
Singapore	30	30
Australia and New Zealand	13	14
North America and Europe	12	11
Latin America	2	1
Africa / Central Asia / Middle East	2	2

As such, Temasek's exposure is 58% to mature economies and 42% to growth regions.

Industry Exposure

	2013	2012
Financial Services	31	31
Telecommunicatiions, Media and Technology	24	24
Transportation and Industrials	20	21
Life Sciences, Consumer and Real Estate	12	12
Energy and Resources	6	6
Others	7	6

Liquidity Exposure

	2013	2012
Listed large blocs (>20% share)	38	37
Liquid and Sub-20% listed assets	35	36
Unlisted assets	27	27

Over the course of the last year Temasek made some interesting investment moves. Its stake in ICBC has increased and it deepened its exposure to Asia's insurance industry with stakes in AIA and Ping An. It also invested in Kunlun Energy; a Chinese Gas Transmission company.

Shopping malls in Asia are an important part of people's lives, especially at weekends. Some people literally spend the whole day in the shopping centre with friends and family. Activities might include having a morning coffee, a hair appointment, going to a newsagent, shopping, lunch, a gym session or massage, afternoon tea, watching a movie before having dinner and going home. In Jakarta we were told by one property developer 'there was nothing to do but go to the mall at weekends'. The Asian consumption story is 'alive and well' and continues to thrive. International and regional retailers have recognised this, and one would find many of the same retail stores in Jakarta, Manilla or Bangkok as one would in Hong Kong, Singapore and even Melbourne / Sydney.

Property prices in emerging Asian markets like Thailand and Indonesia are rising rapidly. A small 30sqm apartment near transport in Bangkok now sells for THB3m (A$106,000), while a typical land (140-160sqm) and house (two story) package 20kms out of the CBD in West Jakarta would cost IDR 2bn (A$220,000). Furthermore in the same area of West Jakarta a 'super premium' land (300-1000sqm) and house package overlooking a golf course, costs between IDR 9-27bn (A$1m – 3m). This particular release sold over 50% of stage 1 on day 1 with 100% of sales going to local owner occupants. Lastly the commuting time from West Jakarta during 'rush hour' to the CBD would take approximately two hours, both in the morning and at night. Mortgage penetration in ASEAN is still low and this, coupled with increasing affluence, urbanisation, reasonable housing affordability, and the strong affinity of Asians to own property, should translate into good long-term prospects for the property sector in the region.

Reflecting strong economic growth in Indonesia, domestic cement consumption rose 17.7% to 48 MTPA in 2011, was 14.5% higher at 55 MTPA in 2012 and is expected to increase a further 8% to 59.4MTPA in 2013 (calendar). With cement construction per capita at just 223kg (May 2013) compared to China's 1611kg (May 2013), the outlook for Indonesia's cement industry continues to look very positive. Growth drivers for cement remain the buoyant property market and increased infrastructure development.

A number of internet employment businesses in Asia appear to have strong business fundamentals. These may be summarised as good brands, excellent products, scale, duopoly positions, reoccurring revenue, excellent margins and low cost. Furthermore many have established solid track records, are well managed and substantially owned by insiders. We like this space (and others) within the digital super highway theme.

While global glove manufacturing companies are growing 5-10% annually, on the back of rising healthcare expenditures, especially from emerging markets, it is a commodity related industry. Furthermore the composition of the industry is changing. Indeed, nitrile gloves seem likely to account for 50% of global usage in a few years and latex gloves the balance. Given the key characteristics of the industry, valuation criteria remains 'key' in assessing the investment merits of specific companies. Among the world's major rubber glove producing nations, Malaysia is the largest with a market share of 65%, followed by Thailand with 18% and Indonesia 12%.

The healthcare industry in Malaysia comprises of both a public and private sector. Public hospitals are accessible to all Malaysians and heavily subsidised by the government. The country's healthcare industry has favourable prospects driven by factors like population growth, ageing, lifestyle diseases, high standards of living, rising health insurance (70% of private sector funding) and growing health tourism. While the greater part of the population still uses the public sector, demand for private hospitals is increasing. Catalysts for this include long waiting periods and overcrowding in public sector hospitals. With Malaysia's number of hospital beds per 1000 people only 1.8 compared to an OECD average of 3.1, private sector hospitals should continue to develop.

Thailand's healthcare spending per head, as a percentage of GDP per capita, amounts to only 3.9%. This is about the same as India, but below both China and Malaysia. The hospital sector is made up of both public and private hospitals as follows.

Type of Hospital	Number of hospitals	%	Number of beds	%
Public Hospital	998	76	109,447	82
Private Hospital	311	24	24,658	18
Total	1,309	100	134,109	100

Source: Ministry of public health

While the public sector dominates the hospital sector in Thailand, demand for private hospitals is growing rapidly. The growth drivers for the industry and for the private hospital sector are similar to Malaysia. It is also worth highlighting, like many countries in Asia, that Thailand faces a general shortage of doctors. This is particularly acute in rural areas (circa 1 doctor per 3300 people) relative to Bangkok (circa 1 doctor to 1200 people). Thailand has a world class reputation in the hospitality and service industries and healthcare is now an important part of this. Indeed, many foreign nationals come to Thailand, specifically to have an operation and then recuperate in one of the country's superb resorts.

The Crown Property Bureau (CPB) in Thailand is responsible for managing the assets of the Crown of the Kingdom of Thailand. The assets belong to the "monarchy as an institution" rather than King Bhumibol. As well as having significant property and equity investments, the CPB is involved in a wide range of diversified social projects e.g. education, farming, Buddhist temples, conservation etc. and takes pride in Corporate Social Responsibility. The CPB's two "flagship" equity investments are stakes of 23.7% in Siam Commercial Bank (SCB) and 32% in Siam Cement Corp.

SCB, in which the portfolio has a holding, is Thailand's number 1 retail bank. Loan growth in 2010, 2011 and 2012 amounted to 13%, 22% and 20% respectively. At the end of 2012 the composition of the bank's loan portfolio (THB 1547 billion) was retail 43.1%, SME 19.8% and wholesale 37.1%. In addition to the consumer focus SCB's non-interest income amounted to 40% of operating income last year and the bank is targeting 50% in years to come. SCB's other valuation criteria, including its capital position (2012 total capital 16.2%), remain strong.

During our recent trip we were reminded of the environmental issues facing many parts of Asia. Indeed the third week of June saw record levels of air pollution in Singapore, caused by land fires in Sumatra, that were illegally clearing land for palm oil plantations. Air pollution was also severe in Malaysia. Singapore measures air quality via the Pollutant Standards Index of PSI. The standard measures five key air pollutants in the form of sulphur dioxide, nitrogen dioxide, ozone, carbon monoxide and P10 (particle matter 10 microns or smaller in size). The reading reflects the pollutant with the highest concentration and any reading above 100 is considered unhealthy and anything above 300 hazardous. At the time of our trip readings in Singapore got as high as 400 in certain instances! Furthermore in August 2012 Hong Kong suffered its highest recorded pollution and in

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January 2013 air quality in Beijing went 'off the scale' at the monitor located in the US embassy. Pollution (air, water etc.) is a massive issue in Asia and a number of cities in China like Beijing, Shanghai and Guangzhou have already introduced vehicle restriction policies to combat pollution and congestion. Shanghai copied Singapore's certificate of entitlement system and makes car buyers bid for a licence plate (current cost RMB 90,000 or A$16,000), whereas Beijing introduced a lottery system to cap car registrations in 2011. Beijing has also controlled private vehicle usage since 2008, by restricting owners with 'odd number car plates' to usage one day and those with 'even number car plates' to the next day. Developments like these to control pollution have important long term investment implications and is perhaps the main reason why Asia will never be able to embrace a fully fledged Western style consumption model. In short, there are just too many people!

Taiwan

The ATF made a brief detour to Taiwan as part of its visit to the ASEAN region. We hold two Taiwanese companies in the fund, one of which is an indirect way of investing in China and in particular the Social Housing theme. The other gives the fund exposure to Taiwan's ageing demographic and is now also expanding to the mainland. We believe both have favourable long term growth prospects.

<u>Geography</u>
The island of Taiwan (which makes up 99% of the country's territory) is located 180 kilometres off the south eastern coast of mainland China, and has an area of 35,883km2 (approximately half the size of Tasmania). Most of the country's 23m population (98% Han Chinese ethnicity) live on the western part of the island, as the eastern two thirds consists mostly of rugged mountains.

<u>Politics and Economics</u>
Taiwan holds the distinction of being Asia's first constitutional republic, being established in January 1912. The country has made a successful transformation to democratisation since the first elections of 1996, and Mr. Ma Ying-jeou of the (pro-China) Kuomintang party was re-elected in 2012 as President for a second term.

Ties with China remain a tricky issue as many opinion polls suggest that maintenance of the status quo, as opposed to unification, is preferred by a large majority of the population. From an economic perspective, China clearly matters. Hong Kong/China is Taiwan's biggest export market (40%), and conversely Taiwan is the fourth largest source of foreign direct investment into China.

The success of Taiwanese companies abroad (most notably in China) has however come at the expense of the domestic economy, which has stagnated in the last decade, with jobs and investment shifting overseas. The formation of more normal ties with China in 2008 enabled Taiwan to formally seek agreements with China, as well as other countries, seeking to address this issue, through trade agreements and inward direct investment programs, amongst others.

The most recent development occurred in June, with the signing of a service trade agreement with China under the Economic Framework Cooperation Agreement (EFCA). This opens up 80 service related industries in China to Taiwan, with Taiwan reciprocating with 64 to China. The range of industries is wide, and includes finance, healthcare, life services, transport and tourism. The ECFA is expected to be implemented sometime in 2014, after a full review.

In the meantime, and ahead of significant foreign investment inflows, the outlook for Taiwan in the next 6-12 months looks “unexciting”. UBS forecasts private consumption growth of just 1.9%, and GDP growth of 3.0% in 2013. This is un-surprising given the correlation between domestic demand and exports (70% of nominal GDP). In Taiwan’s favour however, is its strong fiscal position, at government, corporate and household level, with the TWD being one of the most undervalued currencies.

Demographics

The median age in Taiwan is 38.7 years. This makes the country the third oldest in Asia, excluding Japan. Taiwan became an aging society in 1996 when the percentage of the population aged 65 and over reached 7%. This figure rose to 10.2% in 2007, and is estimated to increase to 20% in 2025, 30% in 2040 and close to 40% by 2050. Taiwan is ageing rapidly due to the country having one of the lowest fertility rates globally.

Taiwanese enjoy a comparatively high standard of living, as evidenced by per capita GDP of over US 20,000 (38th highest in the world), with per capita GDP on a purchasing power parity over US 38,000 (29th highest in the world).

Industry and Companies

In 2000, Taiwan set up a Pollution Remediation fund to treat contaminated land-sites. Over 1,000 hectares of land in Taiwan has been identified by the Environmental Protection Area as contaminated, and requiring remediation.

Taiwan generates 15.32m metric tonnes of industrial waste (general and hazardous). Less than 5% of this is treated by licenced companies.

China completed its first waste census, which was published in 2010. The census estimated that China generated 3.90b metric tonnes of industrial waste.

It is estimated that 10% of farmland in China is contaminated by heavy metal.

The 12th 5 year plan (2010-2015) has set aside RMB 1.1 trillion for investments in pollution reduction and prevention measures in China, which is part of a RMB 3.4 trillion overall program for environmental protection. Environmental issues form a large part of the governments’ new economic policy which focuses on more sustainable growth.

Outlook

While not claiming to be an economist, the global environment has become more complicated recently, posing challenges for investors in all markets, including Asia. The immediate growth outlook for Asia, while positive in comparison with those in developed markets, remains modest by historical standards, especially in major economies like China and India. Furthermore, current account deficits are an issue in countries like Australia, India, Indonesia and Thailand. The recent increase in American interest rates and strength in the US$ has further compounded the situation. Quantitative easing has made equities look inexpensive relative to bonds, but its potential withdrawal has forced investors to reappraise their fundamental absolute value. For example, measuring a company’s stock price relative to its average earnings over the last ten years (adjusted for inflation), makes valuations around the globe rather more expensive than they appear. Despite the best efforts of central bankers, quantitative easing continues to have a bigger impact on asset prices relative to economic activity and the global environment remains deflationary. This is typified by the fact there is little or no inflation, income growth or bank lending in major western economies. The major holders of financial assets around the world are “the wealthy”. As such, the prevailing climate disproportionately favours the rich over the poor and raises the likelihood of more social unrest around the world. Weaning the world off ‘cheap money’ is going to prove difficult. Going forward conservative long term investors should focus on sensible diversification by asset class (including cash and gold) and geography. Asia, with all its positives as we have mentioned before, should be an important part of this strategy.

Portfolio Characteristics

	Portfolio	Benchmark	Variance
Number of Stocks	44	605	561
Beta	0.87	1.00	-0.13
P/E (X)	12.5	10.7	1.8
Yield (%)	2.8	2.8	0.0
P/B (X)	2.1	1.7	0.4
Historical EPSg(%)	14.4	10.4	4.0
Forecast EPSg(%)	10.4	12.6	-2.1
Return on equity (%)	17.4	15.5	1.8
Dividend Cover (x)	2.9	3.3	-0.4
Net Debt/Equity (%)	-1	32	