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.

JUNE 2018

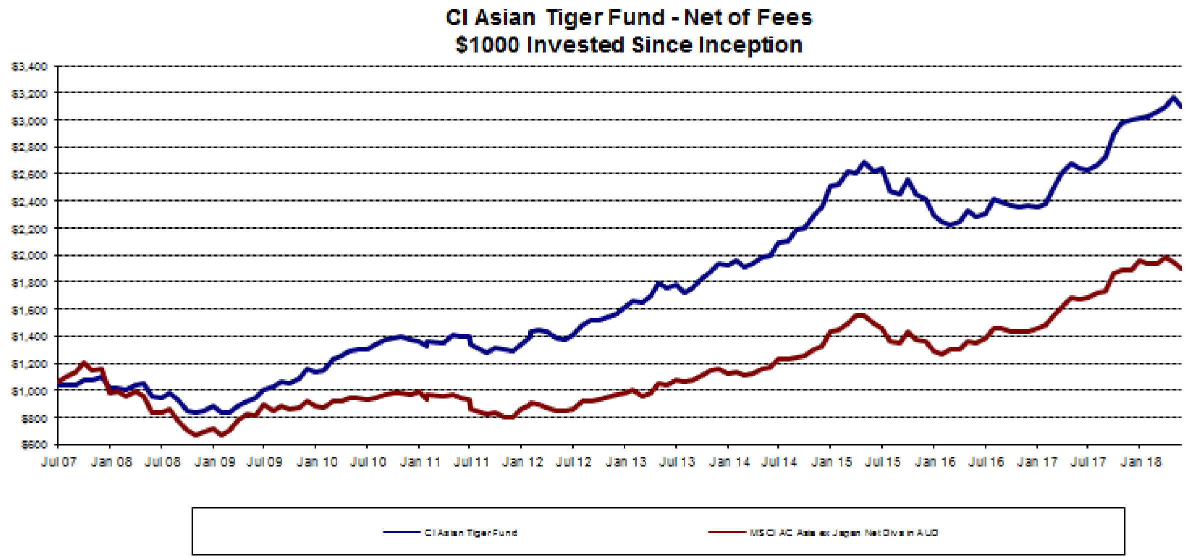
"No-one can see their reflection in running water. It is only in still water that we can see"… Taoist proverb.

"The more you know, the less you understand" … Lao Tzu.

"Any man who strives to do his best whether his work be great or small, is considered to be doing the work of a lion"… Nagarjuna.

	****PORTFOLIO**	**#BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTH	1.25%	-1.78%	3.03%
ROLLING 1 YEAR	18.62%	14.10%	4.52%
ROLLING 2 YEAR	17.75%	18.49%	-0.74%
ROLLING 3 YEAR	7.02%	8.44%	-1.42%
ROLLING 5 YEAR	13.39%	12.91%	0.48%
ROLLING 7 YEAR	13.62%	10.59%	3.03%
ROLLING 10 YEAR	14.43%	8.60%	5.83%
SINCE INCEPTION*	12.61%	6.02%	6.59%
SINCE INCEPTION^	269.27%	90.25%	179.02%

*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

To many investors, the world's future seems increasingly uncertain, complicated and risky. This is hardly surprising given the daily news commentary about wars, religious conflict, climate change, hunger, poverty, lack of economic opportunity and inequality to name but a few. The whole situation is compounded by lack of government accountability, transparency and trust. That these things have existed in the past and will do so in the future is scant comfort. Rapid technology change and innovation, together with forceful world leaders like Donald Trump, Xi Jinping and Vladimir Putin are exacerbating the situation. Nevertheless, it is important to keep all things in perspective and a good example is Donald Trump. While he is certainly unpredictable, his words and actions (to date) have centered on delivering his campaign promises. Furthermore, it would be hard to say all of his rhetoric towards China on trade and Europe on defense by way of example, is unjustified. While Donald Trump has polarized America, his freedom of expression has also shaken up the cozy political world of consensus decision making and populist platitudes. Change like we are seeing today brings challenges, but it can also be positive. Going forward investors will need to be increasingly adept at reading signs from Donald Trump, Xi Jinping and Vladimir Putin as they are from central bankers.

'Widely divergent' is the best description of Asian markets over both the last quarter and the 2017/2018 financial year. Indeed over the course of the last 12 months, the Chinese and Thai markets were the only regional Asian markets that outperformed the benchmark. Nevertheless, the region as a whole, as measured by the MSCI AC Asia Ex-Japan Index, rose 14.1% (A$ terms / net dividends). Because of a poor 4Q, this performance marginally "lagged" that of the MSCI AC World Index, which increased 15.0%. Among factors at work, adversely impacting Asian stock markets over the last 3 months, were higher American interest rates, a firmer US$ and a better economy. The growth is being driven by tax reform and the likelihood of an infrastructure stimulus package. Whether this buoyancy is sustainable is debatable. Interestingly over the last year the 30 year US Treasury bond yield has moved up from 2.81% to 2.99% - not a significant change.

MSCI Data with net dividends	**June Qtr 2018 in A$ terms**	**June Qtr 2018 in local currency terms**	**12 month to June 2018 in A$ terms**	**12 month to June 2018 in local currency terms**
AC World	4.4%	2.7%	15.0%	10.8%
AC Asia ex JP	0.8%	-3.1%	14.1%	10.1%
China	4.0%	-3.5%	25.9%	21.7%
Hong Kong	3.2%	-1.2%	13.4%	9.7%
India	-2.1%	4.4%	10.5%	12.9%
Indonesia	-14.1%	-9.0%	-9.8%	-6.5%
Korea	-4.3%	-5.0%	7.3%	0.7%
Malaysia	1.7%	-7.5%	9.6%	0.7%
Philippines	-16.9%	-9.2%	-10.6%	-8.9%
Singapore	0.6%	-3.8%	12.0%	6.9%
Taiwan	4.8%	-2.0%	7.8%	4.1%
Thailand	-2.0%	-9.9%	16.3%	9.3%

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Like the performance of Asian equities markets, regional bond markets, have also moved in different directions. At one end of the extreme 10 year bond yields over the 2017/2018 financial year have moved up in India (6.66% to 7.89%), Indonesia (6.78% to 7.86%), and the Philippines (4.66% to 6.42%), whereas Chinese yields have fallen (3.59% to 3.57%). Rising oil prices and a weaker Rupee, which makes imports more expensive and inflation more problematical, were factors behind India's first official rate increase in four years. Higher interest rates in Indonesia have been designed to support the Rupiah. Overseas investors have exited the Indonesian bond market, in response to the Federal Reserve increasing yields. In contrast, to counter the impact of regulatory tightening, deleveraging in the financial sector, slower economic activity and escalation in the trade conflict with the USA, the Chinese government has pursued a more accommodating monetary policy. This was embodied in a 100bps cut in the banks reserve requirement ratio in April 2018, which was followed by the announcement of another 50 bps cut in late June, to add liquidity to the system. Interestingly, the Chinese bond market, which is just 2% owned by overseas capital, is actually benefitting from foreign investment. Then again, it only seems a matter of time before China's credit market is incorporated into global benchmark bond indices.

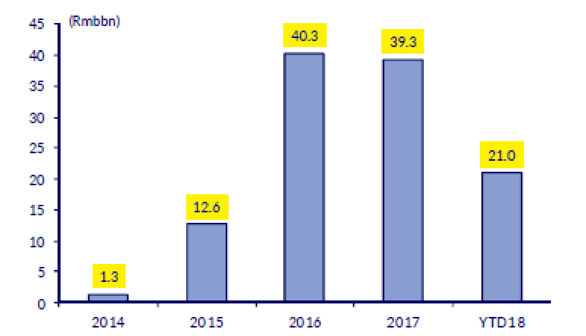
The solid performance of the MSCI AC Asia Ex-Japan Benchmark Index over the last 12 months has been notable, because the oil price has been so firm. Indeed, it has risen 61.1% to US$74.13 a barrel over this period. With the exception of Malaysia, Asian countries are importers of oil, so this trend will need to be monitored closely. Despite all the talk about new technologies, ride sharing, electric cars and clean tech, the world seems likely to be heavily dependent on conventional oil for many years to come. Some of the factors behind its rise over 2017/18 are geopolitical concerns (Iran), production restraint by OPEC and Russia, supply side issues (Venezuela), tight inventories and demand growth from emerging markets. Some are also starting to question the long term sustainability of shale oil production in America. In contrast to oil, there seems to be more of an abundance in gas. Differing from oil, the gold price has been weak, particularly in the last six months. Gold is normally a beneficiary of global angst and tension, but the offset has been higher American interest rates and the prospect of more to come. This in turn has supported the US$, making dollar denominated commodities, including gold, more expensive for holders of other currencies and reducing demand. That said, in an uncertain world, many believe gold still has appeal as an insurance policy. We agree.

Turning to individual Asian markets. Over the course of the year ended 30th June 2018, the three best performing markets in A$ terms with net dividends were China (+25.9%), Thailand (+16.3%), and Hong Kong (+13.4%). In contrast, the Philippines (-10.6%) and Indonesia (-9.8%) did particularly poorly. Over the last 12 months the A$ fell against all the currencies in our benchmark, with the exception of the Pilipino Peso, Indian Rupee and Indonesian Rupiah. Aside from these three currencies, this helped the portfolio's A$ returns.

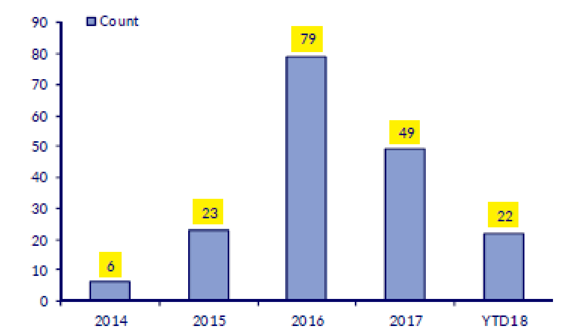
The main driver of the good performance of the MSCI AC Asia Ex-Japan Index over the last 12 months was China. This market now accounts for 37.06%% of the benchmark, with Hong Kong adding a further 11.18%%, for a combined total of 48.12%. MSCI China put in a strong performance in calendar 2017 rising 55% in local currency terms, but has experienced a slightly weaker trend in the last six months. Having done incredibly well in 2017, some consolidation in the market was to be expected. This has certainly been evident in the financial sector which accounts for 21.3% of the MSCI China Index and is the second largest component after the massive technology sector weighting (39.3%). Having performed well in the early New Year, the Bank Index has corrected. Summarized, the main issues concerning investors continue to center on high levels of debt, rising corporate bond defaults and an economic slowdown.

Tougher financial regulation and ongoing deleveraging could negatively impact Chinese banks in the near term. An outworking is rising corporate bond defaults (see charts below) which the Chinese government is now prepared to countenance, to improve market discipline. This is the price the country has to pay for many years of dubious shadow banking practices and spread of low quality wealth management products. Nevertheless, the fact that this has occurred is laudable, as was the stricter definition of what constitutes a non-performing loan (90 days), introduced earlier in the year. China's debt has increased substantially since the GFC, but most of this has been concentrated in the corporate sector. Furthermore, with Global Debt to GDP at record levels, China is not the only country in world that needs to be mindful of debt, at a time of low interest rates (see chart below). While real GDP growth in China is expected to slow, from just under 7% YOY in 2017, to around 6.5% in 2018, this should still be seen as a creditable result. Inflation remains subdued and is currently running at less than 2% year on year.

China: Corporate bond amount defaulted

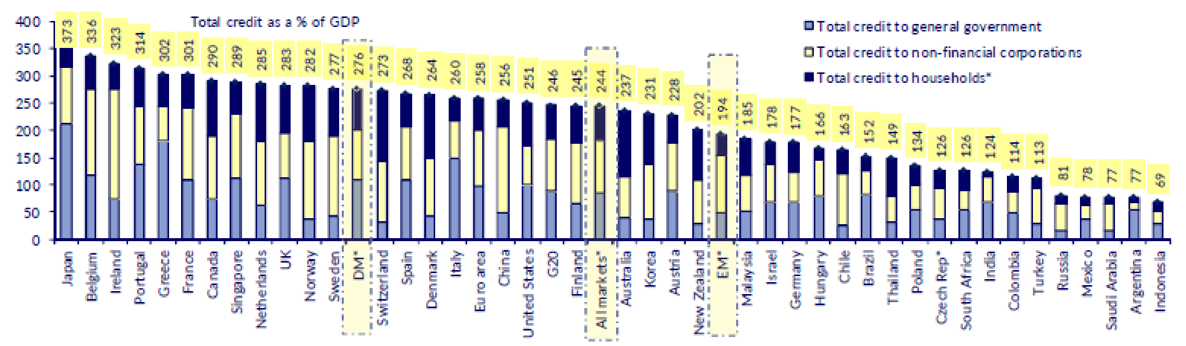


China: Number of corporate bonds defaulted



Source: Wind, CLSA

Global regions/markets: Total debt to GDP breakdown by government, non-financial corporations and household



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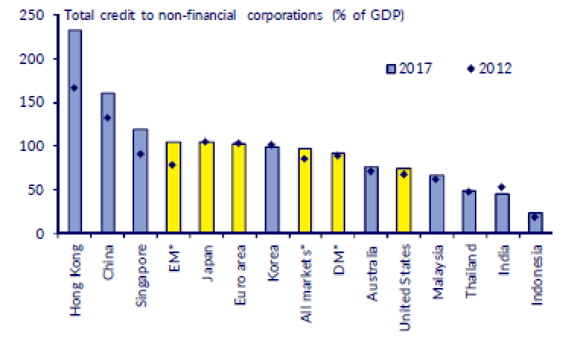
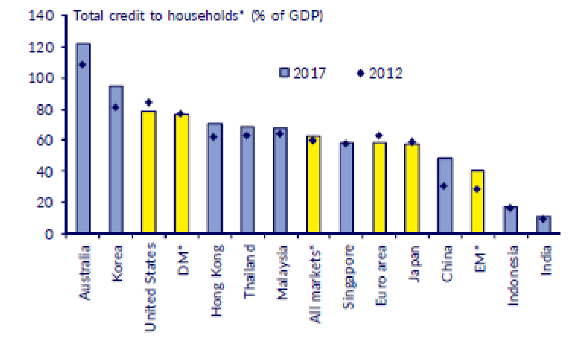
Global regions/Asia markets: Total credit to non-financial corporations



Global regions/Asia markets: Total credit to households



* Households include households and non-profit organisations serving households, DM refers to advanced economies, all markets refers to all reporting economies and EM refers to emerging market economies. Source: CLSA, BIS

Another area of focus was China's A Share inclusion in the MSCI's relevant global and regional indexes. As such, on the 1st June 2018, a total of 234 China A shares were added to the MSCI Emerging Markets and MSCI AC Asia Ex-Japan Index. This represented .an estimated total weight of 0.39% and 0.37% respectively in the two indexes. This inclusion factor of 2.5% will be increased to 5% in September 2018. This is a positive development as it will expand investible opportunities for global investors in China, particularly in sectors like consumer, healthcare, and IT. Full A share inclusion seems unlikely for many years, given China's capital controls and restrictions on foreign shareholdings (10% for individual shareholders and 30% for aggregated foreign investors).

Aside from losing control of its capital account, one of its principal risks in China, is whether it can retain social and economic normalcy, while continuing its policy of more stringent financial regulation and deleveraging. According to CLSA, some 1.5million workers, who have lost jobs in the coal and steel sectors in recent years, have found new jobs in the service sector. Demographics is now reducing the number of people of a working age population and this in turn, is having a positive impact on wage growth, especially among unskilled workers. An outworking is the beneficial impact on wage growth and therefore consumption, which is integral to the country's rebalancing agenda. A central part of this is the "Made in China 2025" plan, which is aimed at comprehensively upgrading Chinese industry along the value chain. This is one of the main areas of trade tension between China and the USA. It is highly unlikely that China will compromise on this subject, as acquiescence would expose it to the "middle income trap" and lower standards of living.

Meanwhile, the American trade "stoush" continues with China and to varying degrees, other countries in the world. After several months of threats by each side, a trade war between America and China finally became a reality on the 6/7/18. The Americans moved first, imposing a levy of 25% additional tariffs on US$34BN of Chinese imports, with the Chinese immediately retaliating on the same basis. No one knows how this will end, but CLSA recently commented that 'the direct impact of tariffs on China's growth will be low (even 25% tariffs on US$50bn and a 10% tariff on US$400bn of China's exports would reduce its GDP growth by 0.25%) and easily countered by policy'. It is also important to remember that China has a variety of indirect ways of responding to American tariffs. Examples might include impeding the growth of American multi-national company's via regulation, selling US government bonds and letting its currency depreciate against the US$. The latter has occurred recently, albeit we think the

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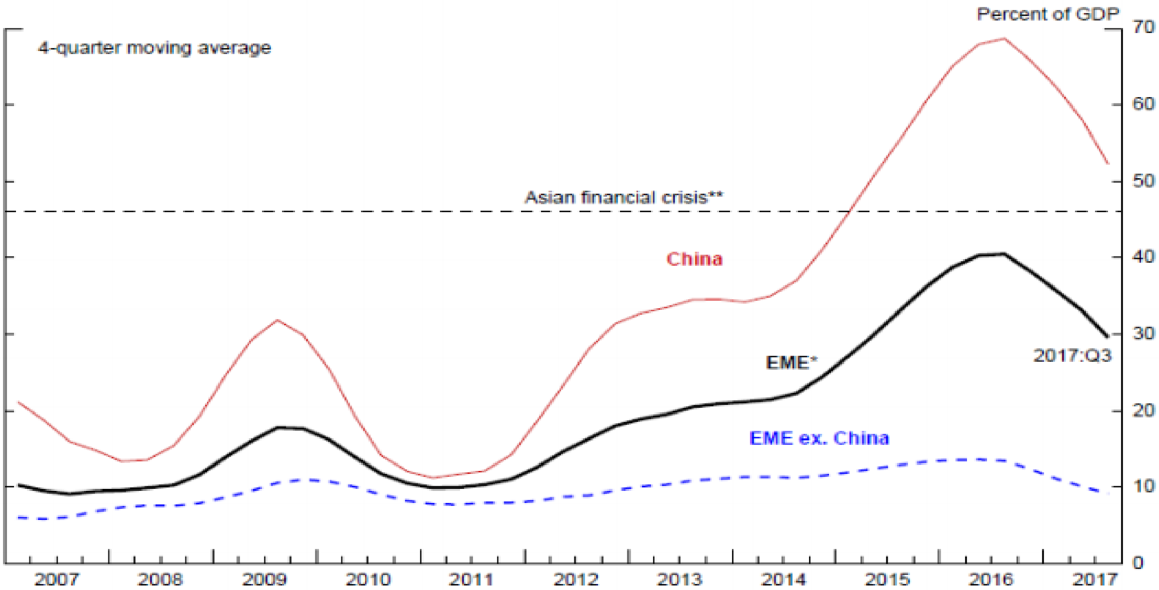
Chinese will be careful in respect of the RMB, as they do not want to encourage capital outflows. Another interesting viewpoint came from JP Morgan, when it recently stated that “the US – China trade conflict involves three aspects, the large bilateral trade imbalance, technology / industrial policy / fair competition and the changing strategic relationship between China and the USA. Arguably some compromise on the first of these issues is much easier than resolution on the latter two. While things can change very quickly, current evidence suggests this dispute will be ongoing and that risks are rising for all concerned.

Another factor unsettling sentiment towards China and other emerging markets has been the recent direction in the US$ and commodity prices. Historically a weak US$ and strong commodity prices have been good for emerging markets (and vice-versa), but this trend has recently shown signs of reversing. Interestingly, Jerome Powell (Federal Reserve Chairman), recently made interesting comments on US monetary policy and the impact it has on emerging markets. Firstly he stated ‘there is good reason to think that the normalization of monetary policies in advanced countries should continue to prove manageable for Emerging Market Economies’ (EME’s)”. Secondly, he said, ‘it also bears emphasizing EME’s themselves have made considerable progress in reducing vulnerabilities since the crisis-point 1980’s and 1990’s’. He goes on to comment about improvements in EME’s fiscal and monetary policy frameworks, the adoption of more flexible exchange rates and even improvements in corporate debt at risk (see chart below). We think this is encouraging, albeit vigilance will be required, as challenges and risks continue to exist. Lastly, we doubt that President Trump is a “strong dollar” person and with growing American current account and fiscal deficits, we are less sanguine about the outlook for the US$ than others.

Emerging market corporate debt at risk has begun to reverse its earlier rise, even in China



Note: Debt at risk is debt of firms with ratio of earnings before interest, tax, depreciation, and amortization to interest expense less than 2. GDP is gross domestic product.
* Emerging market economies (EME) include Argentina, Brazil, Chile, China (including Hong Kong), Hungary, India, Indonesia, Malaysia, Mexico, Poland, Russia, South Africa, South Korea, Thailand, and Turkey.
** Asian financial crisis is GDP-weighted average of Hong Kong, Singapore, South Korea, and Thailand in 1996.
Source: Bank for International Settlements; Standard & Poor's Global Market Intelligence; Federal Reserve Board staff estimates.

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Moving away from China to focus on India, the Governor of the Reserve Bank of India (RBI), Urjit Patel, recently increased interest rates for the first time in four years. Specifically, the RBI lifted its policy repo rate from 6.00% to 6.25% citing higher inflationary expectations, caused by the uplift in oil prices. With the twin hit from both demonetization (4Q calendar 2016) and the introduction of a Goods and Service Tax or GST (3Q 2017), having worked through the system, we now expect Indian GDP growth and corporate profitability to improve going forward. That stated, equities valuations have already discounted much of this likely improvement and overseas investors have been selling the Indian market. Fortunately, domestic mutual fund inflows remain buoyant and have, to date, absorbed the selling.

Looking forward, we continue to have a structurally positive view on India and the reforms being undertaken by Prime Minister Narendra Modi. The next general election is due to be held in April/May 2019 and current indications suggest the Bharatiya Janata Party (BJP) will again win, albeit with a reduced majority. This would be positive.

India is not the only country in Asia to have lifted interest rates and seen its currency depreciate. The Central Bank of Indonesia has lifted rates three times in the June quarter. The first two increases were 25bps and the last one 50bps. The benchmark 7 day repo rate now stands at 5.25%. The moves reflected a more preemptive approach by new Governor Perry Warjio, to stem the depreciation in the Indonesian rupiah against the dollar. This has been caused by high oil prices, which will increase inflation and widen Indonesia's current account deficit. In the balance of probability further rises are expected in Indonesian interest rates. In the Philippines, higher commodity prices pushed up inflation to 4.6% in May which is outside the Central Bank's targeted range of 2%-4%. This, coupled with peso weakness resulted in Bangko Sentral ng Pilipinas increasing its policy rate 25 basis points to 3.25% in May 2018 and by a similar amount to 3.5% in June. Further interest rate rises are expected, amid the continuance of strong GDP growth. Interestingly, India, Indonesia and the Philippines are the only three countries in the MSCI AC Asia Ex-Japan Index that run current account deficits. The same three countries have elevated levels of inflation, whereas it is not currently an issue elsewhere in Asia.

The historic meeting between Donald Trump and Kim Jong-Un occurred on the 12th June 2018 from which a joint statement was issued. This pledged to work towards denuclearization of the Korean Peninsula and the improvement in bilateral relations between the two countries. While some were disappointed about the absence of concrete detail and a lack of timeline, this was never a realistic expectation. The fact that a meeting occurred is a cause for celebration, albeit future negotiations seem likely to be hard and protracted. While future discussions, may lead to disappointments, on current evidence, we would be inclined to be taking a more optimistic view about the future, In short 'where there's a will, there is a way'.

Ultimately, peace on the Korean Peninsula could bring significant economic benefits to both North and South Korea. From the latter's perspective, it remains one of the cheapest markets in Asia, due to geopolitical instability and a dismal track record on transparency and corporate governance. With the Trump/Kim Summit in Singapore and recent corporate reforms (Stewardship code), things appear to be changing for the better in South Korea. If this proves to be correct an outworking of a "peace dividend" could be a strong and lengthy investment cycle on the Korean Peninsula. This would benefit many companies in the South, even if the initial focus was on the material and capital goods sector. It would also come at an optimistic time for the South Korean economy.

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While Korean exports continue to perform reasonably well and an increasing number of Chinese tourists is another positive, employment growth has been disappointing. This seems likely to negatively impact consumption and in turn, GDP growth. A factor has been the lack of success, at least to date, in the Minjoo Party's labor policies. A key factor has been higher levels of minimum wages in South Korea, which last increased 16% to KRW 7,530 (A$9.18) per hour on 1 January 2018. Recently, South Korea has also passed a law, which will reduce the maximum weekly hours worked from 68 to 52, with the aim of improving quality of life in the country. The aforementioned statistics are a timely reminder of why Australia remains a "lucky country".

Another noteworthy development in the June quarter came from Malaysia. This was the amazing electoral victory of the Pakatan Harapan (PH) Party led by Mahathir Mohamad. Together with its ally, the Parti Warisan Sabah, they won nearly 55% of the seats in Malaysia's parliament. The defeated Banisan Nasional (BN) led by Najib Razak, had previously ruled the country since it achieved independence in 1957. Anwar Ibrahim, whose release from jail by royal pardon, was facilitated by Mahathir Mohamad, is seen by many, as a possible future leader of Malaysia. The incoming government has pledged to implement various policies including abolishing Malaysia's Goods and Services Tax (GST), to reintroduce fuel subsidies, to raise minimum wages, to review all mega projects and to establish a royal commission to review scandal ridden institutions like IMDB. Associated with the last of these points, was the recent arrest of former Prime Minister Najib Razak. He was charged with breach of trust and abuse of power, but subsequently released on bail, pending trail. These things are likely to create near term uncertainty, but Malaysia's ability to embrace change has to be viewed as positive. Time will tell.

The Portfolio

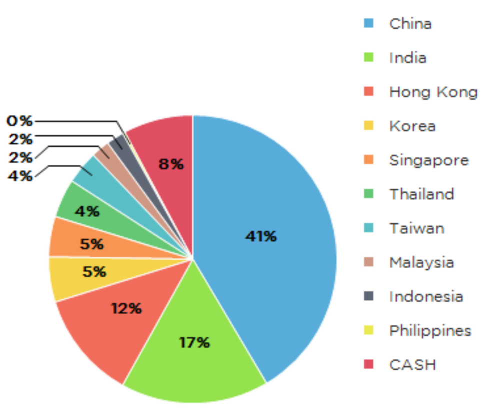
Trading activity was 'restrained' over the quarter, with the portfolio having an estimated turnover of 5%. The portfolio currently comprises 42 stocks. This will reduce to 40, after the residual disposal of two further small positions, amounting to less than 0.75% (combined) of the portfolio. At the end of June 2018 the portfolio had 7.8% of its assets in cash.

Over the course of the 2017/2018 financial year the ATF rose 18.62%, which resulted in out performance of 4.52% relative to its benchmark. The portfolio's pleasing performance over the last 12 months was due to a number of the portfolio's longstanding holdings in China. Examples were 51job Inc, Shenzhou International, China Mengniu Dairy, Towngas China and Shanghai Fosun Pharmaceutical. This was partially offset by stocks exposed to the Asean region and Clear Media.

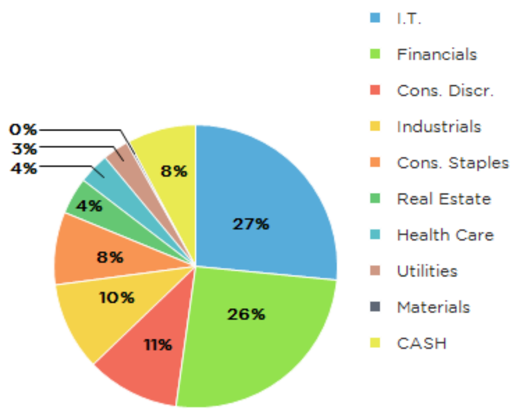
3SBio was the only new company introduced into the Portfolio during the June quarter. This is a Chinese pharmaceutical company established 25 years ago, which focuses on the biologics market. Having introduced its first product in 1998, 3SBio is now building a more diversified portfolio. This has been built up through in-house development, M&A and the in-licensing of other companies' products. Today the Company's core therapies centre on immunology, oncology, dermatology, nephrology (kidney) and diabetes. 3SBio is the leader with 50% market share in these products. The company also has a strong pipeline of new biologic products, in varying stages of development. 3SBio's net debt to equity ratio at the end of December 2017 was 18% and the balance sheet is expected to move into a net cash position next year. 3SBio has a good reputation in the market – 'Scientists First, then Businessmen'. The Executive Chairman and co-founder, Dr Lou owns 25%. 50 employees are direct shareholders (8% stake) and the company also has an ESOP. In short, there is a strong proprietorship culture. Going forward 3SBio is expected to have compound growth of 25% over the next three to five years.

Highlighted below in the pie charts is the portfolio's current exposure by country, sector and subsets of value (SOV). By country, the combined China/Hong Kong exposure is now 53% compared to 50% six months ago. This remains by far the portfolio's largest geographic exposure. The biggest exposure by sector is information technology at 27% compared to 26% at 30/12/17. The financials weighting now sits at 26% v 29% at the end of last year. By SOV the most substantial movements have been between "stalwarts" and growth companies. Over the last six months the former's weighting in the fund has fallen from 48% to 42% and the latter's risen from 21% to 28%. Part of the consideration behind this move, has been our desire to invest in genuine growth companies, rather than stalwarts, that have simply benefited from low interest rates and the resultant multiple expansion.

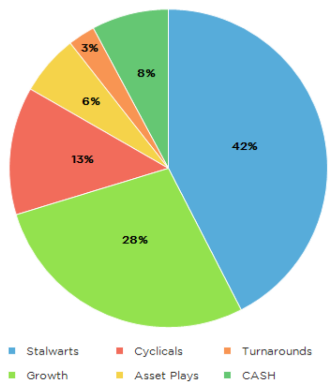
ATF by Country



ATF by Sector



ATF by Subsets of Value



Trip Notes

Over the financial year ending 30/6/18 investment team members have made a collective 10 trips to China, with 2 of those occurring in the last 3 months. We believe the benefits of this more regular visitation programme, augmented by trips from Cooper Investor's global and domestic funds, will more fully manifest itself in future years. Early benefits are already being experienced, as knowledge and networks are expanded, which in turn, are leading to actionable investment ideas.

In the 4Q of financial 2017/18 we conducted a focused research trip on "new retail" in China. We believe "new retail" epitomises the transformation of many large Chinese industries, where traditional business operations are significantly improved by technology initiatives. We visited large retail stores that are morphing into online delivery warehouses with a storefront, spoke to employees who carried around smartphones that receive real-time rush orders from customers, and had extended discussions with top level executives on how data and online delivery changed how they manage their businesses in a permanent and profound way. While still in an early stage, we believe the retail industry will produce a new wave of champions, that provide a truly seamless shopping experience across online and offline. Our research also enhanced our conviction in Alibaba, whose vast data and deep cloud computing expertise are ever more valuable in "new retail".

In the last 3 months we also undertook a trip concentrating on the banking and financial sector in China and were struck by the improving level of management access. Our observation was that government policy appears significantly more coordinated and centralised now under Vice Premier Liu He, with the government doing its best to avoid large negative unintended consequences. Financial sector de-leveraging is occurring in conjunction with a shift away from the informal or shadow banking sector. We regard this as a positive trend; albeit think certain sectors (e.g. infrastructure and property) could be negatively impacted. The big banks have built up significant buffers with provision coverage ratios as high as 300% and should be well-positioned to withstand any negative fallout. Operating trends have continued to improve, reflecting a stabilisation of the credit cycle. This has been in place for over a year now, albeit we are mindful that the sector remains highly leveraged to the economy going forward. We are also seeing signs of improved minority shareholder friendliness amongst some players.

We have also met a number of healthcare companies in China and conclude that there are opposing factors at play for the industry. As the biggest payer, the government remains incentivised to keep a lid on overall spending. On the other hand, demand is rising due to demographics and lifestyle changes. In our opinion, government policy has become more nuanced. This favours bigger and more innovative players, as they have the ability to build up their own sales forces and comply with tougher manufacturing standards and R&D requirements. In addition, a number of companies will benefit from their addition to the government's insurance coverage plan, which was introduced last year and has significantly boosted the affordability of certain drugs. The R&D pipeline for the industry is promising, and like elsewhere, prospects for the biosimilar industry are the strongest. For now, the industry remains largely domestically focussed, unlike in Korea and India, which are at a later stage of development, but also face US/EU policy issues. Whilst leading multi-national companies have an important role to play in China, lower pricing seems like the natural cost of entry. Overall, we think that the investment prospects for this industry remains highly promising, a view which seems shared by VC funds, who invested USD11.7b into the industry in 2017. Our preference remains for companies with strong market leadership in their chosen therapies and/or innovative R&D pipelines.

We have also undertaken further research into China's conglomerate sector. This remains a fascinating one, characterised by high levels of family ownership, with stocks trading at large discounts to assessed values. Currently, a number of companies are experiencing inter-generational change. This has resulted in a streamlining of corporate structures (e.g. CK Asset), a refocus on core businesses (Hopewell), a greater emphasis on China (the Jardine Matheson group) as well as business transformation projects (Dairy Farm, Mandarin Oriental, CK Asset). Whilst a lot of this remains "work in progress", we continue to think there is a lot of value latency in some of the structures, and regard the inherent conservatism and long-term thinking of the best management teams as positives.

Having already made three trips to India this financial year, we again visited the country in June. Putting aside the macro issues, most of the companies we met expressed a positive outlook for their operations. Rural recovery, infrastructure spending, a positive impact from GST implementation, and technology adoption were the commonly discussed themes. Consumer companies are seeing recovery in demand. The better-run private banks are confident in sustaining loan growth and in gaining more market share from state-owned banks. The traditional services provided by the IT services companies are experiencing challenges, offset by the growth of digital services and increasingly larger pool of businesses adopting technology.

Indian companies which are in the portfolio and that we met, are seeing positive operating trends. Ashok Leyland and IndusInd Bank have benefitted from the robust activities in infrastructure spending, through their respective commercial vehicle businesses. Dabur India has been gaining market share, has made several management changes in its healthcare business, and is reviewing its supply chain management system that may include consolidating its warehouses post implementation of GST. City Union Bank expects strong growth in MSME loans, as more small businesses are entering the formal banking system, thanks to implementation of GST. Along with HDFC Bank, the bank is well-positioned to gain more market share from the public sector banks, eleven of which are under the Reserve Bank of India's Prompt Corrective Action (PCA) plan. When this occurs banks are prohibited from making new loans.

On the IT front, WNS has benefitted from the digitisation trend with half of its new clients' logos being first-time outsourcers.

On the second leg of our trip, we visited Indonesia and Singapore for the fourth time this financial year. In Indonesia, we have been doing some work on a sector that has been experiencing a price war, which appears to be ending soon. This may lead to a future investment opportunity. It remains difficult at this juncture to find opportunities that excite us in Singapore.

Market Outlook

With the world having changed beyond recognition over the last 100 years, trying to predict the future seems futile. Higher standards of living, caused by industrialization, have resulted in booms in urbanization and consumption, while life seems more complicated. Much of this is associated with greater freedom of choice, allied to 24/7 news and information flow from the media. That transformative technology is altering the lives of millions of people around the world, is an observable trend. Today this is very evident in Asia. Indeed in June 2018, Kotak Securities put out an opportune note of this subject, highlighting how disruption was impacting most sectors in the Indian economy (see table below). While this specifically relates to India, much is applicable to the rest of Asia as well.

Sector	Disruption			
	Market forces	Policy	Regulatory	Technological
Automobiles-2Ws	Ride-sharing	Air pollution reduction, energy security		Electric vehicles
Automobiles-PVs	Ride-sharing	Air pollution reduction, energy security	Safety record of AVs versus normal driver cars	Electric vehicles, autonomous vehicles
BFSI-lending	Increased competition in retail lending Deepening of corporate bond market	Privatization of PSU banks (if) Policy on P2P lending	Corporate bond market	E-commerce, social media platforms
BFSI-payments				Digital entrants
BFSI-savings	Passive funds, low-cost insurance products	Privatization of PSU banks (if)		AI advisors
City gas distribution			New competition to break monopoly Break-up of business into infrastructure and marketing	
Coal		Clean energy		Renewables
Consumer products	Category diversification, new player entering, in-house brands of retailers		Possible health regulations for tobacco	New players through e-commerce platforms
IT services	Change in service model, new agile competitors, disruption in end-users' business			Cloud ecosystem
Media				Consumption through digital platforms
Petroleum products		Cleaner automobile and industrial fuels		Lower demand due to EVs
Power generation	Coal power generation versus renewable power generation	Clean energy		Demand from electric vehicles
Telecom (towers)	Competition in wireless industry			
Telecom service providers	Large disruption already seen in the industry		Relaxation in M&A guidelines	

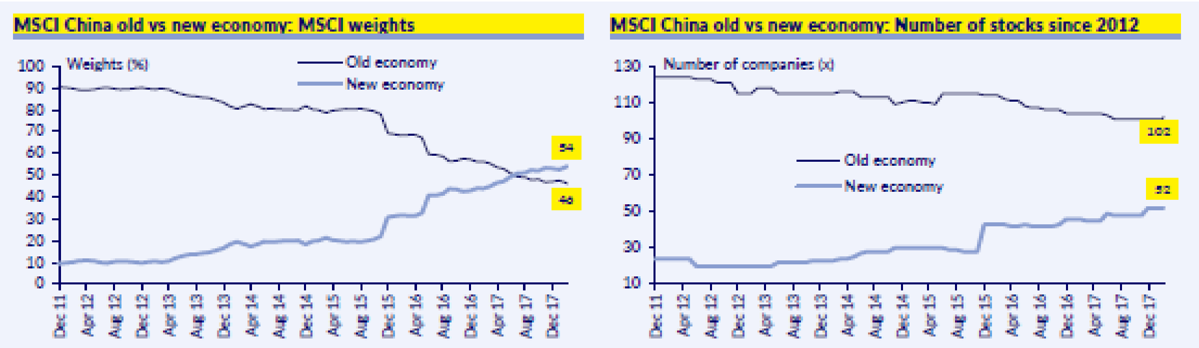
Notes:
- High risk
- Medium risk
- Low risk
- High risk but positive

Source: Kotak Institutional Equities estimates

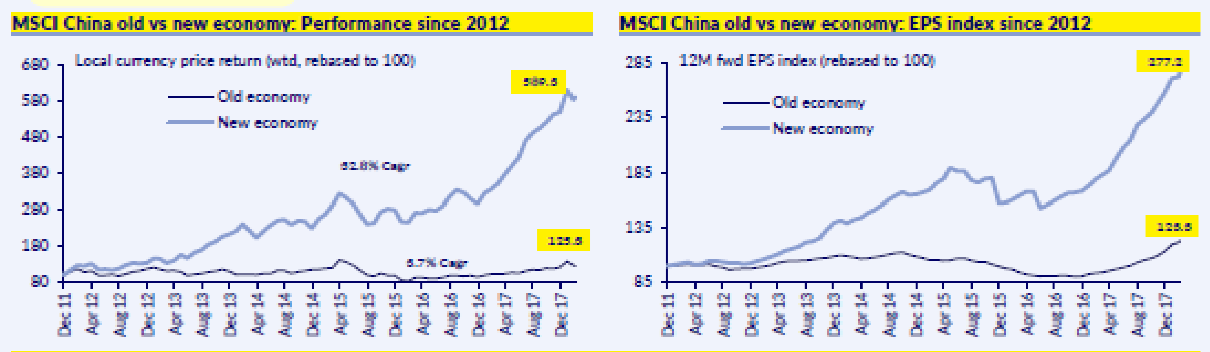
China is also experiencing a massive transformation in its economy. Progress has been real, but skeptics abound that it will be capable of managing future challenges. This is understandable, but current evidence suggests, at least for the moment, that the country deserves to be given “the benefit of the doubt”. Undoubtedly some part of the country’s success, since Deng Xiaoping came to power in 1978, has to be attributed to its system of government and this is not expected to alter. How much China has changed in recent years, is nicely reflected in its stock market. This is illustrated in the following charts, courtesy of CLSA.

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

JUNE 2018



Old economy includes financials, commodities, telecom, utilities, real estate, staples, industrials ex-aerospace and retail ex-internet. New economy includes tech, internet, healthcare, consumer discretionary ex-retail and aerospace. Source: CLSA, Factset, MSCI



Old economy includes financials, commodities, telecom, utilities, real estate, staples, industrials ex-aerospace and retail ex-internet. New economy includes tech, internet, healthcare, consumer discretionary ex-retail and aerospace. Source: CLSA, Factset, MSCI

Going forward, sectors associated with the new economy in China should continue to prosper. Further impetus will come from government encouragement and support. Indeed, China is investing heavily in R&D and is rapidly closing the gap with developed countries around the world. For example, the OECD estimates that over 2005-16, that China's gross domestic expenditure on R&D, as a % of GDP, increased from 1.31% to 2.12%. In contrast, over the same period the United States increased it's from 2.51% to 2.74%. Successions of dynasties have risen and fallen in China's 3,000 plus year history. Nevertheless, despite "dark days", recovery has always occurred and enabled China to reassert itself as a world power. This is now occurring again and as the old expression says "history doesn't repeat, but often rhymes". From an investment standpoint China offers the combination of both "growth and value" and continues to look "relatively" interesting, compared to most other Emerging Markets in Asia and around the world.

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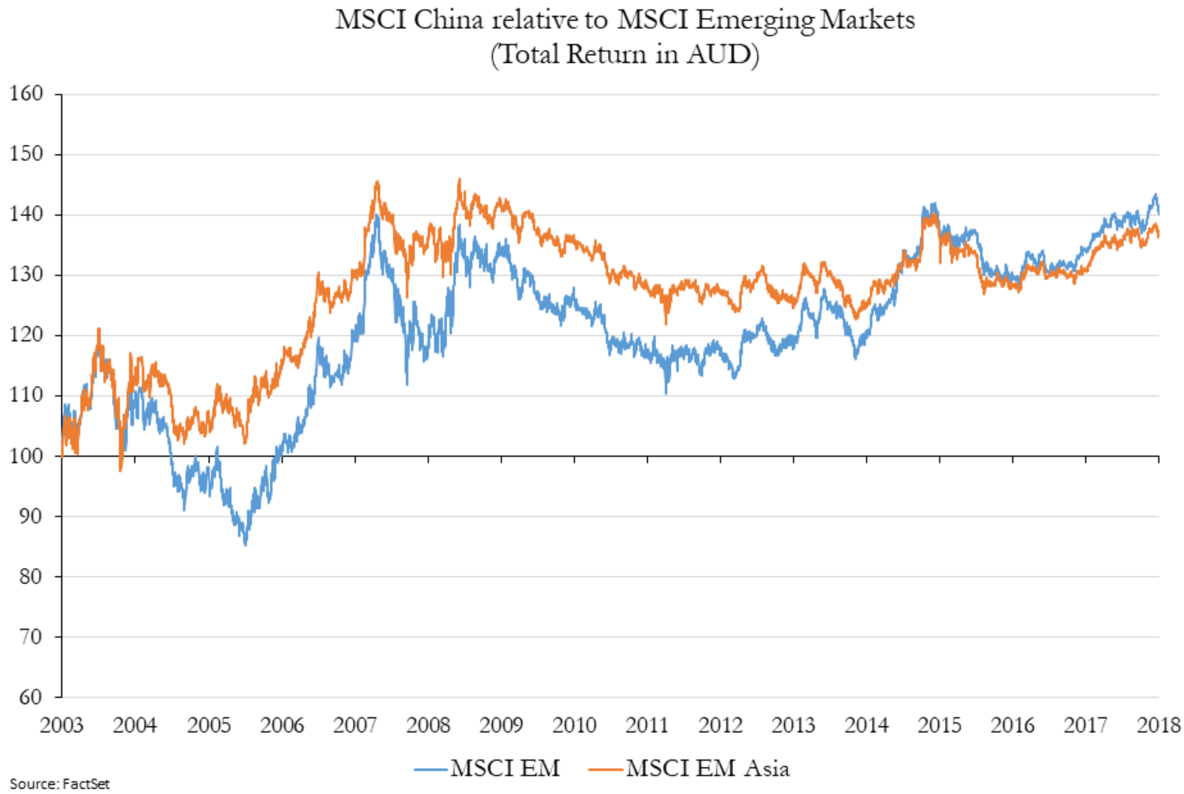

Portfolio Characteristics

	Portfolio*	Benchmark	Variance
Number of stocks	42	709	667
Beta	0.90	1	-0.10
P/E (x)	16.15	12.10	4.05
Yield (%)	1.96	2.85	-0.89
P/B (x)	2.93	1.64	1.29
Historical EPSg (%)	14.44	11.82	2.62
Forecast EPSg (%)	13.87	11.47	2.40
Return on Equity (%)	17.57	13.63	3.94
Dividend Cover (x)	3.16	2.91	0.25
Net Debt/Equity (%)	-5.98	24.32	-30.30

Source: UBS PAS

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

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

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