CI ASIAN TIGER FUND
QUARTERLY REPORT

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

MARCH 2014

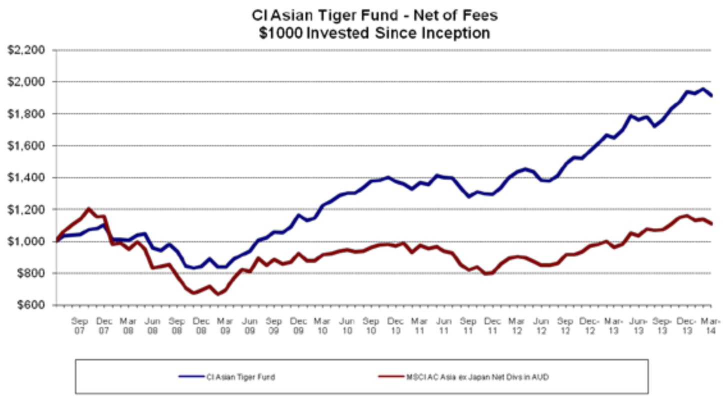
"Be truthful to yourself and truth will follow you." Kuldeep Gulati.

"In the practice of tolerance, one's enemy is the best teacher." The Dalai Lama.

"Never be satisfied. Never be bound by conventional wisdom." Ko Nishimura.

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTH	-0.83%	-4.18%	3.35%
ROLLING 1 YEAR	17.62%	15.62%	2.00%
ROLLING 2 YEAR	17.36%	10.94%	6.42%
ROLLING 3 YEAR	13.97%	4.52%	9.45%
ROLLING 5 YEAR	20.72%	9.70%	11.02%
SINCE INCEPTION*	12.09%	1.58%	10.51%
SINCE INCEPTION^	116.07%	11.14%	104.93%

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



Market and Portfolio Performance

Having risen a massive 42.5% (in A$ terms with net dividends) over calendar year 2013, the MSCI World Index "paused for breath" and fell 2.4% (in A$ terms with net dividends) in the first quarter of 2014. This decline was perhaps partially due to the political turbulence in the Ukraine, but other influences were more economic in nature. These related to "mixed messages" emanating from the Federal Reserve in the USA and the continuance of anaemic economic activity in that country. Well publicised challenges in the world's second largest economy, China (reform process/ banking/property), would have also made investors cautious. Indeed, the latter factor was an important influence in the continued under-performance (-4.2% in A$ terms with net dividends) of the MSCI Asia ex-Japan Index over the quarter.

MSCI Data with net dividends	March Qtr 2014 in A$ Terms	March Qtr 2014 -local currency terms
MSCI World	-2.4%	-0.9%
MSCI Ac Asia Ex-Japan	-4.2%	-0.8%
MSCI Australia	+2.2%	+2.2%
MSCI China	-9.1%	-5.8%
MSCI Hong Kong	-6.7%	-3.3%
MSCI India	+4.4%	+4.4%
MSCI Indonesia	+17.0%	+13.1%
MSCI Malaysia	-3.9%	-0.7%
MSCI Philippines	+6.1%	+11.1%
MSCI Singapore	-4.3%	-1.3%
MSCI Korea	-5.6%	-1.4%
MSCI Taiwan	-2.4%	+3.3%
MSCI Thailand	+3.7%	+6.0%

Source: FactSet

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Political influences impacted positively on two of the three best performing Asian markets over the quarter. The 'standout' was Indonesia which rose 17% in A$ terms with net dividends. The country will hold a Parliamentary Election on the 9th of April 2014 and a Presidential Election on the 9th July 2014. There are three main parties - the Democrat Party (Susilo Bambang Yudhoyono), the Golkar Party and the PDI-P - contesting the election. There is an increasing expectation in Indonesia that the PDI-P can win more than 30% of the Parliamentary seats compared with the 17% it has at the moment. This Party is led by Megawati Sukarnoputri, the daughter of Indonesia's First President (Sukarno), who has nominated Jakarta Governor Joko Widodo as its presidential candidate. Having been Governor of Solo City and Jakarta, Joko Widodo has become a popular figure in Indonesia and he is respected as a good reform orientated administrator. He has encouraged infrastructure development, promoted urban renewal projects and initiated healthcare programmes. His "Can Do" attitude has been augmented by a 'common touch', by which he regularly visits poorer urban areas to discuss issues associated with food, housing and transportation with local people. In short, the market has a positive view on Joko Widodo – we agree!

Having under-performed the MSCI AC Ex-Japan for the last nine months, the Philippines was the second best performing market over the last three months, rising 6.1% in A$ terms with net dividends. This was not all together surprising as the business case for the country remains "robust", as is highlighted in the following figures:

Inflation Target	4.0% (plus / minus 1%)
2014 Inflation (Estimate)	3.9%
Policy Interest Rate	3.5%
2014 GDP (Estimate)	6.6%
2013 Current account % GDP	4.4%
2014 Fiscal Deficit % GDP	-2.0%

Source: JP Morgan

Furthermore, the Philippines have some 98million people which make it the 12th most populous country in the world. The population is also young and growing at around 1.8% per year. The aforementioned gives the country a strong demographic profile which we like.

With high levels of investment spending, a strong consumption orientated economy (overseas remittances) and growing industries like Business Process Outsourcing and Tourism/Gaming, the outlook for the country remains sound. While one of the more expensive markets in Asia, its overall size (US$64billion free float market capitalisation) is tiny. In fact it's almost exactly the same as one company in Australia – Telstra. Having now visited the country several times, we used the period of market weaknesses last year to establish an overweight position in the Philippines.

India was the third best performing market over the March quarter, rising 4.4% in A$ terms with net dividends (see later comments). Perhaps the greatest surprise over the last three months was the credible performance (+3.7% in A$ terms with net dividends) of the Thai market, despite ongoing political challenges. In recent times Thailand's Constitutional Court has declared the Country's February election "null and void", while it has also judged the Infrastructure Bill (worth some THB2trillion to the economy) to be illegal. Furthermore, the "acting" government of Yingluck Shinawattra still does not know whether the opposition Democratic Party will contest another general election (May/June) and is itself embroiled in the fiasco associated with the Rice Subsidy Scheme, which has left THB30billion owed to famers.

The worst performing markets over the three months ended March 2014 were China and Hong Kong which fell -9.1% and -6.7% respectively in A$ terms with net dividends. While there are pockets of strength in these markets, even some of these (e.g. internet stocks) have weakened recently. Investors appreciate, as does the Chinese Government, for genuine reform to be successful slower growth will have to be accommodated in the next few years. The key questions remain – is there the political resolve to see the reforms through?

Reforms are crucial to China's economic well-being in the longer term and we believe that the country's leadership understands this. Financial deregulation will be an important part of this. Interest rates in China are far too low, with deposit ratios regulated and lending rates only recently liberalised. As a result, investors have invested their cash in other assets like property, which has promoted over-building and speculation. Like in other countries around the world, there has been more inflation in China than the headline numbers have suggested. Furthermore, in their search for yield, investors have actively purchased Wealth Management Products, many of which seem likely to be of dubious quality. Many Local Governments and State Owned Enterprises (SOE's) with privileged access to cheap credit have borrowed heavily and not always wisely. From an SOE perspective, significant investment has led to chronic overcapacity in many large industrial sectors. SOE's have also "crowded out" private companies in China who have been forced "underground" in search of credit. For many years credit growth has substantially exceeded GDP growth in China and left the country with a legacy of issues, not least in the financial and property sectors which now need to be rectified. However, rectified they can be with appropriate reforms and strong leadership. The Chinese and Hong Kong markets seem likely to wait for a clearer sign of policy action and its associated timetable, before adopting a more favourable stance.

The Korean market was also disappointing over the quarter falling -5.6% in A$ terms with net dividends. While the Korean economy remains in good shape, with both a current account surplus (5.4% estimated in 2014 / source: JP Morgan) and a fiscal surplus (0.9% estimated in 2014/source JP Morgan) it remains heavily geared towards world trade, which remains subdued. Furthermore, China is now Korean's largest trading partner (both imports and exports). Indeed, last year, China accounted for over 26% of Korea's exports, with key products being machinery, electronics, etc. With China more subdued economically at the moment, it obviously has a negative impact on the Korean economy. The other major consideration in looking at Korea is that its major competitor in many export markets, Japan, has benefited from the weakness in the Yen.

The Portfolio

During the quarter, the portfolio returned -0.83% against the benchmark return of -4.18%, which represented outperformance of 3.35%. The portfolio's overweight positions in Indonesia, The Philippines, Thailand and India contributed to outperformance, as did the underweight position in Hong Kong/China and Korea. In addition to these country effects, a significant contributor to performance was the portfolio's holding in Kepco Plant Service (KPS), whose shares rose by 24% in local currency terms over the quarter. KPS's 2013 result confirmed that the power plant shut-downs and delays in new project commencements which had impacted the industry in 2013 were temporary in nature. The demand for KPS's critical maintenance and refurbishment services should remain robust going forward, reflecting Korea's energy shortage and an upcoming upgrade cycle due to the aged nature of power plants. Furthermore, KPS's overseas business appears to be getting traction. Following a period of underperformance in the prior 18 months, KPS's shares have re-rated accordingly.

Jobstreet, which has been a holding of the portfolio since 2010, received a cash bid for its ASEAN (ex. Thai) online businesses from Seek during the quarter. Assuming that the transaction proceeds, Jobstreet intends to redistribute proceeds back to shareholders in the form of a special dividend (c MYR 2.4/sh) and it will retain a residual of listed and unlisted assets, which management will seek to monetise and/or operate. The portfolio has done well out of its holding in Jobstreet, and we have a high regard for management and the company. That said, we think that the price paid by Seek, relative to the potential synergies from combining the #1 and 2 classifieds sites in the ASEAN region, is "fair" at best, and that the proposed deal structure does not offer a clean exit to shareholders.

The board and management of Jobstreet have indicated that they will support this transaction, which will require 75% shareholder approval. This suggests that the transaction will proceed given board and management control approximately 40% of shares or more than 50% of the shares entitled to vote, excluding Seek which is not entitled to vote.

During the quarter, the portfolio established a position in three new stocks, whilst also exiting three.

The three new positions were:-

Paradise – Paradise is one of two casinos in Korea catering to overseas tourists, with a licence to operate in perpetuity. We believe that this stock provides a good proxy to the Chinese outbound tourist market as Korea is its third most popular overseas destination. Tourism has historically displayed J curve characteristics with per capita GDP of $10,000 being the inflection point. This bodes well given China's current per capita GDP of US$6,800 today. Furthermore, we believe that the Korean gaming industry offers significant upside when compared with other regional markets, and that any new upcoming licensees will grow, as opposed to cannibalise the existing market. Paradise was purchased at a lower multiple to comparable Hong Kong listed stocks, which operate under finite licence agreements.

Chinese power distribution – this company is the leading Chinese player and competes successfully against multi-nationals. It operates in an industry which requires customised solutions and grows at "GDP plus". Industry growth is driven by urbanisation, smart grid related upgrades and the Governments' environmental/energy saving initiatives, the latter being a focus of the recent 18th Party Congress. The company enjoys a diversified customer base, with good exposure to telecoms, data centres and healthcare which are growing sectors in China. The stock was purchased on modest multiples and at a discount to global peers.

Indian plastics - this company is the leading manufacturer of plastic products which cater to the consumer and industrial markets. Per capita plastics consumption in India amounts to around 8kg compared with 36kg in China and 109kg in the USA. The industry grows at "GDP plus" reflecting urbanisation, and an upgrade cycle in the construction, agriculture and industrial sectors. This company's competitive advantages are brand, scale, distribution and technology. The stock was purchased on modest multiples and at a discount to Indian consumer peers.

All of the above companies have a high level of insider ownership, long operating track records and conservative balance sheets.

The three exits were:

CIMB – The banks' earnings outlook seems likely to be more challenging over the next 12 months. This reflects elevated levels of credit (relative to both GDP and deposit growth), pressure on net interest margins (particularly in Indonesia, where the bank is outside of the top 4) and an uncertain capital markets environment. The position in CIMB has been deployed into a number of the portfolio's other financial stocks where we think the risk-reward metrics are more favourable at this juncture.

Amorepacific – The portfolio has enjoyed good excess returns from Amorepacific over the last 4 ½ years, and we have a high regard for management and the company's leading domestic position. That said, we believe that the company's Korean business, which sources a disproportionate amount of earnings from the door-to-door segment, faces structural challenges in the form of trading down and demographics. At this stage, its overseas operations and initiatives in other channels do not seem able to offset this. We will retain a close watching brief over this stock.

Chinese chemicals – The prospects for this company have materially deteriorated reflecting weaker customer demand, more intense competition and slower than expected market share gains in the coatings segment. This has manifested itself in a decline in the stock's return on invested capital from 22% at the time of the portfolio's purchase in 2009, to 9% currently. Meanwhile, reflecting the more capital intensive nature of the business, the balance sheet has moved from being net cash to 45% net debt/equity, and seems unlikely to reduce materially in the near term. We believe that there are better investment opportunities elsewhere.

During the quarter, we also added to the portfolio's holding of **CSE Global**, where we think the weaker than expected 2013 result reflected some "kitchen-sinking" of costs post the divestment of its UK business (discussed in the previous quarterly). We estimate CSE trades on a 2014 price earnings ratio of 8x (balance sheet net cash) which seems at odds with its position as one of largest independent systems integrator servicing the oil & gas industry, with a high proportion of brownfield (recurring) earnings. The portfolio also added to a number of **Chinese consumer companies**, which appear to have been caught up in the general sell-down of Chinese stocks over the period.

By geography, the portfolio is invested 34% in Hong Kong/China, 31% ASEAN (Malaysia, Singapore, Thailand, Philippines and Indonesia), 13% North Asia (Korea and Taiwan) and 13% India, whilst retaining a small position in Australia. The portfolio increased its overweight positions in ASEAN and India over the period. Industrials (27%) and Financials (27%) remain the portfolio's biggest industry weightings, with the portfolio adding to both over the quarter. The portfolio also holds approximately 6.4% in cash. (See portfolio statistics at the end of this quarterly).

International Visits – Observations and Comments - India

During the quarter we visited India for the fifth consecutive year (accompanied this time by our Managing Director, Peter Cooper) and we thought that an overview of the Indian market would be interesting for our readers.

History

On the eve of the 100th anniversary of the First World War, it is important to remember the profound impact it had on India. Over 1 million Indian soldiers served overseas in France, Gallipoli, East Africa, Egypt, Palestine and Mesopotamia and 75,000 lost their lives. The world famous India Gate in Delhi commemorates these soldiers, having been designed by Sir Edwin Lutyens. India's stature as a nation rose considerably during the War and it signed the Treaty of Versailles in 1919 and was a founding member of the League of Nations in 1920. The War also had a material impact on India's freedom movement. First, in 1917, Britain decided that India be granted "Responsible Government" enjoyed by its "white dominions". Secondly, the nature of India's nationalist policies changed. Gandhi returned to India from South Africa in 1916 having formulated his version of "Swarej" or Self Rule. This was based on solidarity between faiths, the removal of "untouchability" from society and the boycott of foreign manufactured goods in lieu of locally produced goods. In short, moderate political debate morphed into a mass Gandhian movement demanding change. Thirdly, the political landscape in India moved from being secular to more religious. While India would have to endure through many other hardships such as the Amritsar Massacre, World War Two and Partition, there is no doubt that World War One laid the foundation for overall independence in 1947.

Politics

India, the world's largest democracy, has an election in May 2014. At this juncture, the most likely outcome appears that the Bharatiya Janata Party or BJP will emerge with the largest number of seats in the Lok Sabha (lower House of Parliament) elections. The BJP has declared Narendra Modi as its Prime Ministerial Candidate, while the Congress Party has nominated Rahul Gandhi. Both leaders have electoral appeal, with Modi being favoured in the Hindi heartland states and amongst young voters. In contrast, Rahul Gandhi's Congress Party, has historically had a large following in Southern India and amongst minority groups. That acknowledged, neither party seems likely to win an outright majority in the 543 seat Lok Sabha. As such, no matter who wins, both parties will be dependent on establishing alliances with regional parties to form government. How negative, if at all, the presence of regional parties in Government will be from a reform perspective remains to be seen, but it is hoped that Modi will have a clear mandate to pursue change.

The latest opinion polls indicate that the BJP is likely to win around 212 seats in its own right in the general election. With support from minority parties such as the TMC, AIADMK, etc., the BJP would likely be in a position to form a coalition government making, in the balance of "probability", Narendra Modi the next Prime Minister of India. We believe that the stock market would view such a development very positively.

Market and Economy

Despite having a population 55 times larger than Australia, the free market capitalisation of the Indian market (US$386billion) is well below the US$1,388billion accorded to Australia today. Despite the challenges it faces, this highlights the potential of an emerging market like India. The following table compares India with China and Asia Pacific ex Japan covering a selection of key statistics relating to the market, the economy and from a demographic standpoint.

	India	China	Asia Pacific Ex-Japan
2014 P/E Ratio (E)	14.4 x	8.5 x	12.0 x
2014 Yield (E)	1.7%	3.8%	3.4%
2014 Price / book value (E)	2.4 x	1.2 x	1.5 x
2014 Earnings Growth (E)	18.7%	9.5%	12.0%
2014 ROE (E)	17.4%	15.3%	12.7%
Free Float Market Capitalisation (*)	US$386Bn	US$1,710Bn	N/A
GDP Per Head 2013	US$1,440	US$6,801	US$5,278
Population 2013	1,267million	1,361million	3,187million
Age Dependency Ratio 2013 (^)	0.6	0.4	N/A
Current Account % GDP 2013	-2.0%	+2.1%	N/A
Fiscal Deficit % GDP 2013	-4.6%	-2.1%	N/A

(*) as at the 31st march 2014
(^) Age dependency ratio defined as dependants as a percentage of working population
Source: JP Morgan

While India was listed as having the 10th largest economy (GDP nominal) in the world in 2012 (Australia is ranked 12th), it should be remembered that despite progress, it remains a very poor country. This was recently highlighted in a report published by the McKinsey Global Institute which stated that while the country's official poverty has declined from 45% of the population in 1994, it still remains at 22%. Furthermore, this counts only those people living in "abject conditions" which resulted in McKinsey creating an empowerment line. This is an analytical framework that determines a level of consumption required to fill eight basic needs (Food, Energy, Housing, Drinking Water, Sanitation, Healthcare, Education and Social Security) at a level sufficient to achieve a decent standard of living rather than bare subsistence. By this measure some 680 million Indians (55% of the population) in India experience deprivation.

The McKinsey report goes on to highlight that the ability/willingness to spend does not necessarily guarantee a decent life, unless people have access to basic services (health, education, electricity, water, sanitation etc.). It concluded that job creation and productivity are important to improve living standards, as is the need for major economic reform. The latter point is why many Indians see a Modi victory in the forthcoming elections as critical.

The Reserve Bank of India (RBI) last year established an expert committee to review and strengthen its monetary policy framework. The Committee was headed by RBI Deputy Governor Urijit Patel. Among the Committee's recommendations were that the RBI should adopt the Consumer Price Index (CPI) for anchoring monetary policy and that it set the inflation target at 4% with a band of plus/ minus 2% around it. This is all very positive and CPI target has been set at 8% by January 2015 and 6% by January 2016. Both the RBI and its Governor, Raghuram Rajan, have very good reputations. Indeed Indian monetary policy has been sound in recent years, but it has not been complemented by appropriate fiscal policy from the Government

The first open ended Exchange Traded Fund (EFT) comprising shares of blue chip state run companies closed oversubscribed last month. The Central Public Sector Enterprises (CPSE) EFT was launched by the Government, as part of its asset divestment program, and raised 3,000 crore (Rs3.3billion).

The CPSE has a basket of 10 shares made up of the following:

ONGC	26.43%
GAIL India	18.97%
Coal India	17.55%
Rural Electrification	7.23%
Oil India	7.07%
Indian Oil	6.81%
Power Finance	6.50%
Container Corporation	6.26%
Bharat Electronics	2.05%
Engineers India	1.13%
Total	100%

While the EFT comprises many large state owned Indian companies, some omissions are notable, e.g. National Thermal Power Corporation (NTPC) and Bharat Heavy Electricals (BHEL), for reasons that are not readily evident. Incentives were given to encourage retail participation in the issue. Interestingly, according to Business India, Assets Under Management (AUM) comprising EFT's in India amounted to around 10,708 crore (Rs10.8Billion) of which gold accounts for the largest proportion (87%). This reflects Indian's preference for property, gold and cash, over other assets like shares, and this trend currently shows no material signs of change.

Foreign Institutional Investors (FII's) invested US$7.9billion in Indian debt during 2013. With the real possibility of a BJP electoral win and the associated medium term benefits, they have already invested US$6billion this year. However most of this capital has been invested in shorter dated maturities in search of arbitrage opportunities between American and Indian interest rates (around 6-7% at the moment). The aforementioned has clearly had a beneficial impact on the Indian rupee in recent times.

Demographics

India is one of the youngest countries in the world with a median age of just 26 years. As a result, India is set to experience a demographic dividend in future years, which will auger well for GDP growth. Indeed, some 70 million new entrants are expected to enter the workforce over the next five years.

Corporate and Social Governance

India continues to rank poorly in Transparency International's Corruption Perception Index. This measures the perceived levels of public sector corruption in 177 countries and territories around the world. The ranking of those countries in the MSCI AC Asia Ex-Japan index during 2013 was as follows:

Rank	Country	Score
5	Singapore	86
15	Hong Kong	75
36	Taiwan	61
46	South Korea	55
53	Malaysia	50
80	China	40
94	India	36
94	Philippines	36
102	Thailand	35
114	Indonesia	32

For those interested, Denmark and New Zealand ranked number one (scores of 91) while Australia ranked number 9 (score of 81) and the USA and Uruguay ranked number 19 (score of 73).

Notwithstanding the above, under legislation introduced in 2013, any company in India having a net worth of Rs50 crore (Rs500million) or a turnover of greater than Rs100 crore (Rs1000million) or a net profit of Rs5 crore (Rs50million) or greater, will be required to spend 2% of their net profits each year on Corporate Social Responsibility (CSR). This law will become effective from the 1st April 2014. Providing the capital is spent honestly and wisely this is very commendable.

Multi-national companies (MNC's) with listed subsidiaries in India have recently suffered from adverse media comment in India. This has stemmed from the perception of alleged mistreatment of minority shareholders. While not all MNC's are guilty, some do appear to have "cases to answer". The more hostile attitude has brought about regulatory change. This has forced all Indian companies (including MNC's) to have a minimum free float of 25%. Furthermore, the new Companies Act will ensure that all related party transactions must be approved by minority shareholders. The latter will make it much harder for parent companies to raise royalty rates, buy/sell/merge divisions of subsidiary companies other than at fair prices and repatriate cash. While MNC's have performed well in India due to management and technology attributes, it is important minority shareholders are treated fairly. As such, we feel the regulatory changes are not unreasonable.

Banking and Insurance

The Indian Banking System is estimated to have Total Loans outstanding approaching Rs 55trillion in March 2014. Having amounted to 3.6% in 2013 (year-end March) the non-performing assets ratio (NPA) for the sector is likely to have increased to 4.2% by March 2014. It is expected to further increase to 4.5% by March 2015. The NPA ratio for India's Public Sector Banks is much higher (March 2013 = 4%) than it is for the country's Private Sector Banks (March 2013 = 1.9%). Furthermore it is estimated that as at March 2014, Restructured Bank Loans in India will amount to around 6.1%. Adding this figure to the previously mentioned statistic of 4.2% means that some 10.3% of all Indian Bank loans are "stressed". Among other things, this reflects years of political inertia, economic mismanagement, corruption, subdued GDP growth and running mandated social policies through listed banking entities. The outworking is that the Indian Public Sector Banks will require a capital infusion of some Rs 1.7trillion by 2018. This is a lot of capital for the cash constrained Indian Government to find, unless it is prepared to materially dilute its ownership of Public Sector Banks, which seems unlikely at this juncture. Some of India's best minds are currently thinking about a solution to this issue and recapitalising the country's ailing Public Sector Banks. We feel this is one of the more pressing issues facing any new government, as a "healthy economy needs a healthy banking system".

The Reserve Bank of India (RBI) surprised the market recently by only awarding two new banking licences. These went to the listed infrastructure lender, IDFC, and the unlisted microfinance lender, Bandhan Financial Services. As such, no licences went to companies associated with India's major corporate houses like Bajaj Finserv and Larsen and Turbo Finance.

Some market observers expect banking licences to be available "on tap" going forward, but this seems premature, given the RBI's lack of a framework statement. A slower pace of issuance is positive from a competitive standpoint for the Indian banking sector.

The top six private life insurance companies in India comprising ICICI, Prudential, SBI Life, HDFC Life, MAX Life, Reliance Life and BAJAJ Allianz had a combined private market share of 65.9% in 2013. (Government owned LIC has approximately 65% of the entire market.) By product type in 2013, the proportion of life policies written in India comprised:

- Whole Life	18.2%
- Endowment	33.1%
- Unit Linked	38.2%
- Others	10.5%
- Total	100%

The portfolio has exposure to both the Indian bank and life insurance sectors.

Agriculture

With the agricultural sector comprising 18% of India's GDP and employing millions of people, it remains crucial to the country's economic well-being. India has increased food grains production from just 51million tonnes in 1950-51 to 257 million tonnes in 2011-12, and it has managed to do this with modest usage of agricultural chemicals. However, with population growth and low crop yields resulting in low productivity, India is at an inflection point. After the USA, India has the second largest area of land under cultivation globally, but its agricultural chemical market is only US$1.9billion in size compared with US$10billion in America. With farmers now adopting better agricultural technology and farm inputs, providers of these products and services seem destined to do well in future years. The key issue for India and other emerging markets will be to do this while protecting the environment.

Industry and Company

The growth of the Indian **Information Technology (IT)** and related Services industry has been one of the success stories of India over the last two decades. Today the industry is substantial and continues to grow. According to The National Association of Software and Services Companies

(NASSOM), which is a trade association of The Indian IT and Business Process Outsourcing (BPO), its member survey indicated the industry comprised the following in 2013:

US$ million	Exports	Domestic
IT Services	43,853	12,443
BPM (=BPO)	17,848	3,087
Software	14,132	3,788
Hardware	415	12,882
Total	76,248	32,200

The total value of exports, plus domestic, meant the market was worth US$108,448million last year. This year exports are expected to grow to US$86,000million and the domestic market to US$35,400million. In 2015 growth from exports should be 13-15% and the guidance is 9-12% for the domestic market.

The **Indian healthcare** market was worth US$77Billion in 2012 and comprised hospitals 71%, Pharmaceutical 13%, Diagnostics 3% and Insurance / Medical Equipment 13%. Bed density per 1,000 of population in India is 0.9 compared with 2.2 in China and 3.2 in the USA. It is estimated that the country needs to spend US$80billion by 2025 to increase bed density to 2.0 per 1,000 of population. Growth drivers of healthcare in India include an aging population, lifestyle diseases, medical insurance penetration and rising incomes. The portfolio has direct exposure to the hospital sector in India.

India is a major manufacturer of generic drugs around the globe and has a number of world class companies in this area. The Global Pharmaceutical market, according to B&K Securities and IMS Health, is currently worth around US$960billion and this is made up of the following:

- The American market is worth US$350billion and the generics market comprises 15% of this by value.

- The European market is about US$225billion in value and this includes both European Union and Non-European Union countries. The top 5 European Union markets account for US$150billion (Germany, France, Italy, UK and Spain) of the total. The generic market would be about 15% by value.

- The Japanese market is worth approximately US$110billion but generics only account for a lowly 5% of this market by value.

- Outside of the USA/Europe/Japan, the rest of the Global Pharmaceutical market is worth around US$275 billion. However a much larger percentage (60%) is generic by value. These markets are made up of Africa, Latin America, Australia and New Zealand, Asia Pacific, Russia and related countries, and the Middle-East markets.

The Indian Pharmaceutical market is expected to continue to grow in future years. Growth will be driven by price increases (around 5-6% per year as drug prices in India are the lowest in world) and volume growth due to factors like demand from the increasing population, higher per capita income levels, growth in insurance coverage etc. That stated, India still has traditional alternative medicines like Herbal drugs, Homeopathy and Ayurveda which compete with Allopathic/Western medicines. However with increasing urbanisation, growing affluence and awareness and the spread of healthcare facilities, demand for modern medicine will only grow.

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The Indian Pharmaceutical sector is expected to maintain double digit growth (12-14% CAGR) over the next five years. That stated, the export and/or international sectors are expected to grow faster at around 20%. Furthermore, the sector's margins are expected to increase further to 25% levels as the share of exports/international business increases in future years. This is because most companies get better prices for drugs when they are produced in India (rupee cost) and sold internationally (US$). While the portfolio does not have any Indian Pharmaceutical investments at the current time, we are monitoring the sector closely.

Indian Media spend as a percentage of GDP recently amounted to 0.33% compared with 0.76% in China and 0.97% in the USA. As such the market has significant growth potential. Print media in India remains the largest advertising medium having 40% of the market. Growth until 2017 is expected to be 13% (CAGR).

Advertising revenue in the print media industry amounted to Rs150billion in 2012. This market comprised Indian languages 61% and English 39%, with the Indian language component continuing to gain market share.

Print media remains a growth business in India, in marked contrast to elsewhere in the world. Rising literacy (the literate population in India has increased from 537m in 2007 to 656m in 2012), regional growth and increasing patronage of local language (vernacular) newspapers are the main growth drivers. Furthermore, Indian print media companies operate in an industry with low subscription revenue (15% versus 30% in the USA), modest classified revenues (10% v 40% in the USA), ongoing government support (via advertising), while remaining by far the most cost effective way of getting news in the country. These factors give the Indian industry a more sustainable structure relative to other global markets.
Long term print media in India will decline relative to digital as it has done worldwide. How quickly this occurs seems likely to be dependent on the following:

1. Internet penetration;
2. Device eco-system (sub $US100 smart phones);
3. Availability of content (in local languages); and
4. Price of advertising on digital versus print (cheap).

India is the third largest **internet user** in the world with 120million users. Declining costs of internet access and the proliferation of mobile devices is likely to increase the user base to around 350million by 2015. Interestingly, some 55% of Indian internet users by 2015 are expected to access the internet from either a mobile or tablet device. If the aforementioned transpires, it is likely that the economic contribution from India's internet industry can nearly double from 1.6% of GDP to around 3.0% of GDP by 2015. This would make the internet about the same size as India's healthcare sector in terms of current GDP share, as well as creating millions of jobs.

Management at a leading listed online company stated the following criteria were amongst the most important in assessing the investment appeal (along with management and valuation) of internet companies:

1. Technology/functionality;
2. Brand;
3. Sales;
4. Reach/traffic, i.e. market share; and
5. Pricing.

The portfolio has exposure to the Media industry in India.

India is the second largest **cement market** in the world with capacity of 361mt per year in December 2013. The industry's long term average growth has been 1.1 x GDP. During 2012 India produced 240mt (China 2,150mt) and the country's per capita consumption amounted to 195kgs/person. This compared with 1,580kg/person in China and a world average of 520kgs/per person.

India plans to spend heavily on infrastructure spending. The country's 12th five year plan envisages the following over the period 2012-17:

Power, Oil & Telecom	US$375billion
Irrigation & Water Supply	US$250billion
Roads and Bridges	US$190billion
Railways	US$150billion
Ports and Airports	US$ 60billion
Total	US$1,025billion

In comparison, India's 10th five year plan (2002-2007) amounted to US$230billion and the 11th plan (2007-2012) an estimated US$514 billion. It will be interesting to see if India's 12th five year plan materialises into reality.

Should the BJP win government at the forthcoming election with a clear mandate, then we would have more confidence in future levels of infrastructure expenditure materialising. While we do not like the structure of the Indian cement market (relative to other Asian markets), in the portfolio we do have indirect exposure via consumables used in the cement manufacturing process.

India already has world class expertise in a number of industries such as Information Technology, Business Process Outsourcing and Generic Drug manufacturing. A number of others such as Tourism and Automotive manufacturing have huge potential. For example, two wheeler (motor bike/scooter) penetration levels per 1,000 people are still very low in India, compared with other emerging markets:

India	55
Brazil	59
China	64
Indonesia	148
Vietnam	236
Thailand	253

The same is true of motor vehicle penetration per 1,000 as the following table highlights:

Country	**2004**	**2010**	**2030**	**Average annual growth rate (2004-2030)**
India	13	18	110	8.6%
Indonesia	36	60	166	6.1%
Thailand	127	157	592	6.1%
Malaysia	271	361	677	3.6%
Mexico	200	275	491	3.5%
Brazil	171	209	366	3.1%

Subdued economic growth in India has resulted in domestic two wheeler sales growth of only +2.6% in the 12 months ending March 2013, while passenger vehicle sales growth (+2.5%) has also been anaemic. For the first nine months of the year ending March 2014, sales of two wheelers are ahead

+5.4% but those of passenger vehicles down -5.72%. Should India get a stable and more responsible government, these numbers have the capacity to bounce back over the next two years. Longer term, compound annual growth rates from passenger vehicles in India seem likely to exceed that of two wheelers. Commercial vehicle sales are also expected to have a bright future.

The Indian motorcycle/scooter industry is an oligopoly. In 2013, Hero Motorcorp had a market share of 53.2%, Bajaj Auto 24.4%, and Honda Motorcycles and Scooters India (HMSI) 11.8%. This gave the three aforementioned companies a combined 89.4% of the total market. The big winner in recent years, following its split with Hero Motorcorp, has been HMSI which has seen its market share expand from less than 8% in 2012 to around 15% today.

The Indian passenger vehicle market, despite being more fragmented than the country's two wheeler market, also has a lot of growth potential. Drivers for the sector include:

1. Rising income levels and affluence;
2. Positive demographics;
3. Better affordability (lower pricing from entry level vehicles);
4. Increased levels of demand from rural India;
5. New products and shorter replacement cycle; and
6. Growing exports as India becomes a small car manufacturing hub for companies like Suzuki and Hyundai.

Maruti takes its Indian origins back to 1970, although its association with Suzuki started in 1980. This lengthy history has given Maruti Suzuki a massive incumbent advantage in India's passenger vehicle market.
In addition, an excellent track record and good products have enabled the company to build massive goodwill. This is augmented by a terrific brand and superb distribution. As a result, Maruti Suzuki is the undisputed leader in India's passenger vehicle market with a share of around 42%. The next largest players are Hyundai with 15% and Mahindra with 10%.

The portfolio has long favoured indirect exposure to the automotive sector through consumable goods like lubricants, batteries and tyres and/or high technology products. As such, we have indirect exposure to the sector in India.

Market Outlook

Despite the ongoing pursuit of unconventional monetary policy around the world, the MSCI World Index registered its first quarterly decline (-0.9% in local currency terms with net dividends) since the December quarter of 2012. Having seen substantial price appreciation in 2013 driven by multiple expansions, perhaps investors now want to see more tangible evidence that the American economy is normalising. After all, abundant liquidity and cheap credit have yet to have had any material impact on growth/jobs/housing and as debt levels remain elevated, some level of caution is understandable. While geopolitical risk around the world has been ongoing over the last 12 months, be it between China and Japan or in the Middle East, Russia's annexation of the Ukraine has reminded investors that it continues to increase. This also dampened enthusiasm for equities over the quarter. Lastly, with China trying to pursue, in a contemporaneous manner, both financial deregulation and deleveraging, against a background of a fragile world economy, it is not surprising that investors are anxious about the result. This clearly will have important ramifications for all economies around the world and is a source of added risk at the moment. Commodity based economies (and their currencies) like Australia, remain particularly exposed to risk emanating from China.

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All these issues are likely to remain ongoing for the foreseeable future, making predictions about world markets fraught with danger. Nevertheless, we believe the structure and position of the portfolio remain sound and defensive in nature, with substantial diversity around geography, industry, style of holding and thematic. As such, we remain confident about the portfolio and its long term growth potential. To this end, we have expanded the Asian equities team to five, and we are delighted to welcome both Nick Maclean and Emily Park to the firm.

Portfolio Characteristics

	Portfolio	Benchmark	Variance
Number of Stocks	46	602	556
Beta	0.86	1.00	-0.14
P/E (X)	13.3	11.2	2.1
Yield (%)	2.5	2.7	-0.2
P/B (X)	2.1	1.5	0.6
Historical EPSg(%)	8.3	6.8	1.5
Forecast EPSg(%)	11.6	11.0	-0.6
Return on equity (%)	15.8	13.2	2.6
Dividend Cover (x)	3.0	3.3	-0.3
Net Debt/Equity (%)	0	30	-30