CI ASIAN TIGER FUND
QUARTERLY REPORT

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

MARCH 2015

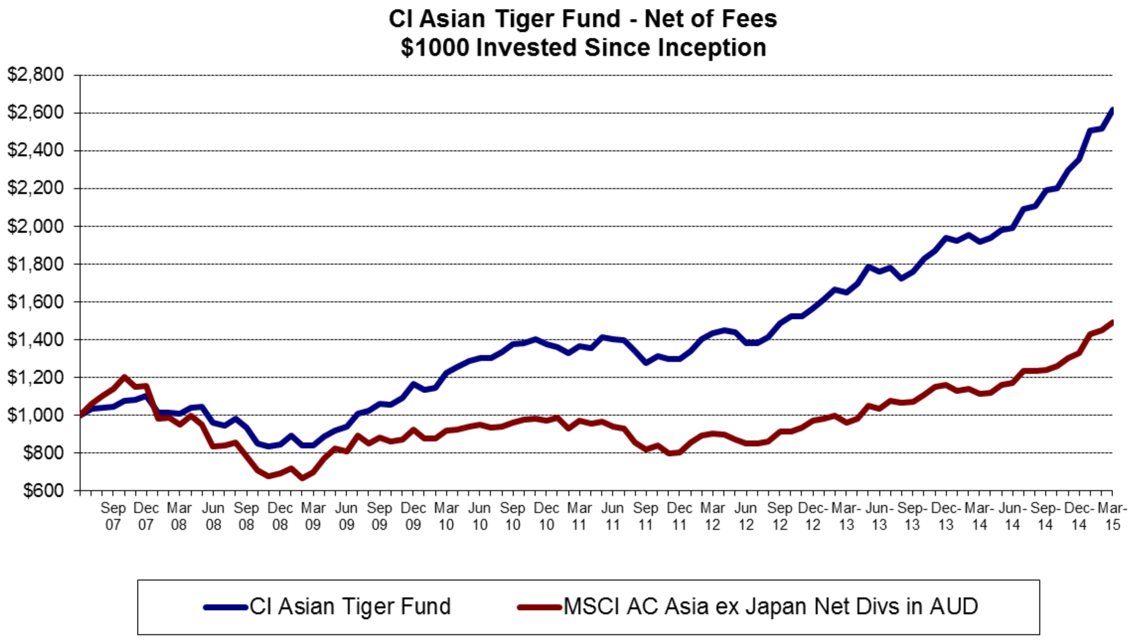
"Life is so short we must move very slowly." **Thai saying.**

"Prayer is not an old women's idle amusement. Properly understood and applied, it is the most potent instrument of action." **Gandhi.**

"To know the mind is the most important task of your life. And to know the mind is to know the world." **Buddhist teaching.**

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTH	11.44%	12.35%	-0.91%
ROLLING 1 YEAR	38.83%	34.34%	4.49%
ROLLING 2 YEAR	27.81%	24.65%	3.16%
ROLLING 3 YEAR	24.13%	18.26%	5.87%
ROLLING 5 YEAR	18.79%	10.22%	8.57%
ROLLING 7 YEAR	16.88%	6.65%	10.23%
SINCE INCEPTION*	15.23%	5.31%	9.92%
SINCE INCEPTION^	199.98%	49.30%	150.68%

*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

The shenanigans amongst Central Bankers continue unabated, with Europe and Japan pursuing quantitative easing programs (creating money to buy government bonds), similar to the US. There is no doubt these economies need further support, but with overblown financial markets, is this the right type of support? Financial markets seem to be placing a lot of faith in Central Bankers around the world, but it would be wise to remember that these people are not infallible and their track records leave a lot to be desired. Indeed, despite the stimulus given to the American economy since 2009, its GDP growth has been range bound between 2.0-2.5%. This is hardly a stellar result, albeit one which could have been a lot worse. Nevertheless, record low interest rates in the US have not, as yet, stimulated capital investment, nor the anticipated level of growth. The American economy remains 70% consumption and for the ordinary citizen facing anaemic income growth, a challenging employment situation, high debt, lacklustre house prices and higher costs of living, we are not surprised that respectable levels of growth remain elusive. The recent very sad passing of Singapore's great statesman, Lee Kuan Yew, is a timely reminder of how comparatively bereft the world is of great leaders.

From a global financial market perspective, general consensus remains positive. While investors remain wary of financial tightening in the US, with obvious negative implications for the global "carry trade", to date there has been "more talk than action". Furthermore, they remain buoyed by signs of a possible acceleration in American economic activity, although the 30 year treasury bond yield (2.538% 31/3/15) is giving no indication that growth (or inflation) is picking up. We remain more sceptical, but acknowledge the positive sentiment could continue near term. Nevertheless, in a game reminiscent of "musical chairs" when the music stops and unconventional monetary policy comes to an end, a propitious outcome seems unlikely.

Over the last quarter financial markets made further headway, with the MSCI AC World Index rising 9.6% (A$ Terms with net dividends) over the quarter. In contrast, the MSCI AC Asia Ex-Japan Index rose a faster 12.3% (A$ terms with net dividends) over the same time period.

MSCI Data with net dividends	March Qtr 2015 in A$	March Qtr 2015 in local currency	12 month end of March 2015 in A$	12 month end of March 2015 in local currency
AC World	9.6%	4.9%	27.9%	13.7%
AC Asia ex JP	12.3%	5.4%	34.3%	14.2%
China	15.8%	8.1%	50.4%	23.9%
Hong Kong	13.5%	6.0%	39.8%	15.2%
India	12.9%	4.5%	46.4%	26.5%
Indonesia	9.7%	8.1%	29.7%	23.1%
Korea	11.7%	5.3%	15.0%	-1.2%
Malaysia	5.4%	4.2%	7.1%	0.1%
Philippines	17.7%	9.8%	52.3%	25.1%
Singapore	5.1%	1.5%	23.7%	11.0%
Taiwan	11.4%	2.9%	36.4%	15.5%
Thailand	9.7%	1.2%	34.7%	11.4%

Source: Factset

MARCH 2015

During the last three months the gold price in US$ hardly moved, but the oil price fell from US$53.27 a barrel to US$47.60 a barrel. With the death of King Abdullah and his succession by his brother Prince Salman, the collapse of world oil prices, a potentially resurgent Iran, together with the political chaos in Iraq, Syria, Lebanon and Yemen (Shia Houthi rebels), the Middle East remains, along with Russia/Ukraine, the main area of geo-political risk in the world.

Looking back over the last three months, the three best performing Asian markets in A$ terms with net dividends were the Philippines (+17.7%), China (+15.8%) and Hong Kong (+13.5%), although India (+12.9%) also continued to perform well. In contrast, the two worst performing markets by a reasonable margin were Singapore (+5.1%) and Malaysia (+5.4%). Turning to the individual markets in the region and some of the events impacting on their performance over the last three months, the following are highlighted:

China/Hong Kong

In January 2015 MSCI announced it would include US listed ADR's in its benchmark indices. This will increase China's weighting in the MSCI Asia ex Japan index from around 27% to 30% (UBS estimate). This will also significantly increase the weighting of the MSCI China index to internet stocks (circa 20% weighting which is a level akin to the banks).

The Occupy Central Movement in Hong Kong had a materially negative impact on retail sales and tourism. While concluded, the primary issues remain unresolved and the next election (of a Chief Executive) is due in 2017. Other issues in Hong Kong remain an over-valued property market and lending by Hong Kong banks into China.

CPI inflation in China fell to 0.8% year on year in January 2015. It has not been below 1% since 2009. China cut the Reserve Requirement Ratio or RRR to reduce the amount of cash banks are required to hold as reserves by 50 basis points to 19.5% in February 2015. This is estimated to have freed up around US$100billion in liquidity. More cuts seem likely.

Amid concerns about deflation and weak property prices, the People's Bank of China reduced its benchmark one year loan rate by 0.25% to 5.35% and its one year deposit rate by 0.25% to 2.5% in March 2015. Further cuts seem likely as real interest rates in China remain very high. China's GDP grew 7.4% in 2014 which was its lowest rate in 24 years. The Government's target for 2015 is for GDP growth of "about 7%".

China's acute environmental problem was highlighted on the internet with the release of the documentary "Under the Dome" by Chia Jing. The video went viral and has received 200 million hits before being removed from all websites in China.

Despite all the gloom associated with China, the prospect of reform is a long-term positive, as is the apparent allocation of more credit to the private sector. This in turn is generating healthy employment and income growth. Another positive is the development of the service sector which will complement China's transition from an investment led, to consumption based, economic model. Other initiatives that seem likely to benefit China are the formation of the US$100bn Asian Infrastructure Investment bank (AIIB) and the US$40bn New Silk Road fund. While some countries like the US are concerned about governance and transparency issues in the AIIB many others, including Australia, are to become founding members. These funds will drive infrastructure and exports regionally and help industries in China currently suffering from over capacity. The aforementioned financial institutions form part of Xi Jinping's OBOR (One Belt One Road) plan to forge a road and rail network between China, ASEAN and Europe to stimulate trade and improve bi lateral relations.

Indonesia

Having reduced energy subsidies last year, Indonesia is channelling more capital into infrastructure. According to CLSA, the country's 2015 RP291tr infrastructure budget is nearly the same as the two prior years combined. Nevertheless it needs to be implemented, which has historically been a challenge in Indonesia, to really boost economic activity.

The Indonesian Government instructed state run cement companies to reduce prices from around RP60,000 a sack to RP57,000 a sack in January 2015. This was aimed at making cement more affordable to the general public. Investors reacted negatively viewing it as state intervention in a free market. It would be very negative if state intervention spread to other sectors of the economy such as banking.

With growth falling to 5% (a five year low) in 2014 and an expectation of a decline in inflation to 3%-5% (target) by the end of this year, the Bank of Indonesia reduced its benchmark interest rate from 7.75% to 7.5% in February 2015. While the move has not had any real impact on the Rupiah, further rate reductions are likely, so the exchange rate will have to be monitored closely. Apart from India (if you want to exclude Australia) Indonesia is the only Asian economy expected to run a current account deficit in 2015, albeit a reducing one.

Korea

The market continues to be held back by a subdued external environment given the country's dependency on exports. In addition, the Won has appreciated significantly against the Yen in recent years and Japan is a key competitor in export markets.

Longer term positives for what is a "cheap market" (estimated 2015 P/E ratio of 9.6x) include the proposed 10% tax on companies not using surplus reserves to increase salaries, make investments or pay increased dividends. Furthermore, the Government has also proposed a lower tax on dividends.

With a high current account surplus and low inflation, the Bank of Korea cut its base rate for a third time since August last year. The reduction of 25bps to 1.75% brought the base rate to a record low and a further fall is possible.

Malaysia

The weak oil price continues to impact negatively on Malaysia, although the stock market still remains quite expensive (estimated 2015 P/E ratio around 15.5x). The country's GDP is likely to fall from 6.0% in 2014 to 4.8% in 2015, although inflation is likely to reduce to 1.1% year on year (source: JP Morgan).

Malaysian public sector debt at an estimated 55% of GDP in 2015 is "understated" and consumer sentiment is fragile (lower subsidies and the introduction of a 6% GST on 1 April 2015). That acknowledged, longer term these measures will help offset lower oil revenues from a fiscal perspective and Malaysia continues to run a current account surplus.

Philippines

The Philippines was the best performing market (in A$ terms with net dividends) over the quarter rising a significant 17.7%. With an estimated 2015 P/E ratio of 20x it also remains the region's most expensive market, as well as its smallest with a Free Float Capitalisation of US$88bn (source JP Morgan).

The Government has lowered the central bank's inflation target from 4% to 3% from 2015 onwards.

The economy continues to grow nicely, led by Overseas Remittances (estimated US$24bn in 2014) and Business Process Outsourcing (estimated US$18bn in 2014).

With the next Presidential Election (Aquino not allowed to run) and General Election to occur in May 2016, “politics” will become more of an issue in the Philippines over the next 12 months.

Singapore

After Malaysia, the Singaporean market was the worst performing over the last three months.

The Monetary Authority of Singapore cut its inflation target to between a range of negative 0.5% to positive 0.5% for 2015. It also adjusted its monetary policy to “slow the appreciation of the S$” at the same time (February 2015). Should American interest rates start to normalise, Singapore along with Hong Kong will be two Asian economies to see higher rates this year.

There seems to be a realisation that Singapore is becoming very expensive and this may hurt its competitive position in Asia. This is already reflected in the property market and is now starting to impact tourism. With the government crackdown on foreign labour, wages are increasing, but loan growth and consumer spending remain lacklustre. With a substantial presence in ship/rig building and in oil services, the weaker oil price will also impact some important industries.

Taiwan

The country is due to hold elections in early 2016. The poor performance of the KMT (pro China) in last year’s local elections and President Ma’s failure to sign the Cross Strait Service agreement, have generated a lot of publicity in recent months. Indeed many people now believe the DPP lead by Tsai Ing Wen has a good chance of winning the forthcoming election. How China would react to this situation (if it eventuated) remains to be seen.

Thailand

Thailand joined the growing number of countries cutting interest rates in March 2015 when the Bank of Thailand reduced its policy rate to 1.75%. The country’s economy grew only 0.7% last year and exports fell for a second consecutive year in 2014. Consumption in the country has also been weak.
Growth is expected to pick up this year, but this will be very dependent on infrastructure spending resuming. Nevertheless the stock market continues to behave relatively well (as does the Thai baht), driven by the tax incentives associated with the Long Term Equity Fund.

The Portfolio

Over the March quarter there was little variation in the geographic and industry composition of the portfolio. From a country perspective the portfolio remains “very slightly underweight” in Hong Kong/China, and the portfolio’s weightings in Malaysia (5.1%) and Taiwan (6.9%) are slightly lower. This was partly because these markets under-performed the index over the last three months. Our Korea exposure also reduced from 8.3% to 7.6% over the March quarter, and the cash position lifted from 6.53% to 7.61%.

From an industry perspective the portfolio’s Industrials weighting increased by 1.2% to 26.8%, but both the Consumer Discretionary and the Healthcare exposures fell 1% each. The former is a little surprising in a buoyant market environment, but the latter understandable, given its inherent defensive qualities and the residual sale of a small existing portfolio position.

More recently, the portfolio's weighting in financial stocks has reduced following the exit of a position in each of India and China. While the portfolio made capital in both names, we felt the Indian bank had failed to deliver on results and management had "not lived up to expectations". We also exited the portfolio's holding in ICBC. An investment in a bank like ICBC is dependent on China's macro-economic conditions and government policy. Given both the slowing economy and the country's reforms are occurring at a time of net interest margin compression and rising credit costs, we felt the risk/reward ratio was unbalanced. While we continue to believe ICBC is best positioned defensively amongst the big four banks, dividends across the sector are also being lowered and the sector "lacks transparency".

Some of the capital released from the sale of the above mentioned banks was used to increase the portfolio's holdings in DBS. The investment case for DBS, which is a leading pan-Asian regional bank is based on:

1. An institutional/corporate banking focus driven by leading retail franchises in home markets;
2. Strong, stable and cheap funding services facilitated by a leading distribution network; and
3. Relatively better position versus smaller competitors to withstand structural and cyclical industry challenges.

Lastly, the valuation of DBS is attractive (P/E of 11x, P/B 1.3x and yield of 3.2%), while its CEO, Mr Piyush Gupta, is held in high regard. We are also looking to add to another existing bank position, but we are awaiting a more favourable entry price.

While other changes were made to the portfolio over the quarter, they were of a relatively minor nature. These involved profit taking in India and opportunistic small additions (mainly) to existing positions in Hong Kong/China and Korean stocks.

Portfolio turnover continues to run at an estimated annualised rate of just over 16%.

International Visits – Observations and Comments: India

Politics and Governance

When people today use the word "India", they are invariably referring to one country with the second largest population in the world (1.2 billion). With over 4,600 ethnic groups, nearly 2,900 religions and numerous states (28) and union territories (7), the reality is very different. The herculean task of running the world's largest democracy with a multi-party system became the responsibility of the Bharatiya Janata Party (BJP) led by Mr Narendra Modi last year.

As we have commented previously, India is in need of both genuine reform and a new sustained investment cycle to lift growth. We remain optimistic Mr Modi can facilitate this change, but it may take longer than many expect and impediments continue to exist. While the BJP control 52% of the Lok Sabha (the Lower House of Parliament), the Party does not have a majority in the Rajya Sabha (Upper House). This makes it dependent on the support of minority parties to pass legislation. Unfortunately, already, this has not always been forthcoming, forcing the Government to use ordinance or 'temporary laws'.

Upper House seats are a product of state elections and the BJP's position in the Rajya Sabha will improve, following a number of recent state election victories (Delhi aside). This will make it easier to pass laws, although on current indications, the Party is unlikely to get full control (in its own right) during its current term of government which ends in April 2019. That acknowledged, if BJP legislation passes the Lower House, but subsequently fails in the Upper House, the Party has the option of calling a "Joint Session" of Parliament and combining the votes of both, where the BJP has a slim majority. While this has only been done a few times in India's parliamentary history, it is an option open to Mr Modi should legislation continue to be blocked. Importantly, while India's Insurance Bill has recently been passed, the country's Mining and Coal Bills are still pending and the crucially important Land Acquisition Bill and GST Legislation are still to be tabled.

Although India has grown significantly since it moved to economic liberalisation in 1991, the country continues to face many socio-economic challenges. While the situation has improved dramatically over the last two decades, the World Bank estimates 23.6% of the country's population still live below the poverty line (US$1.25 a day/PPP in 2012). Furthermore, many children still suffer from malnutrition and are underweight. In addition, with the caste system widely ingrained in Indian society, it remains unequal. Interestingly though, the World Bank's Gini Index, ranks Indian society better than other big emerging markets like South Africa, Brazil, Russia and China.

Corruption is still a significant issue in India with Transparency International Corruptions Perception Index in 2014 ranking India No. 85 with a score of just 48, compared with China's ranking of No. 100 (score 36). The poor have suffered the most from widespread corruption in India. This is because government revenue intended for aid, social welfare programmes and public works have been "pocketed" by corrupt politicians and businessmen. The situation has been aggravated by weak institutions such as the police, judiciary and India's massive bureaucracy. Nevertheless, following a string of scandals (telecom, coal etc.) in recent years, India's rising middle class have increasingly protested, demanding change. While this has a long way to go, new laws such as the Right to Information Act have been introduced and even a new political party created (the AAP Party won the recent Delhi election). Furthermore, Mr Modi's untarnished reputation and desire to improve corporate governance, made a very important contribution to the BJP's electoral victory last year. Mr Modi is also pro-business and investment and as such he will be keen to improve India's global ranking (currently a lowly No. 134 versus China's No. 96) in the World Bank's 2014 Ease of Doing Business Index.

Demographics and Industry

India's large population remains very young, with the median age being just 27 years (China's median is 37 years), and some 66% of the population are aged between 15-64 years. While the country's population growth rate has slowed to around 1.25% (China is less than 0.5%) it is still growing. With an increasing flow of people into its cities, its urbanisation ratio, currently a modest 31% (it's over 50% in China), is set to grow significantly in future years.

India will enjoy a demographic dividend over the next decade or so and must create 10 million to 15 million new jobs a year to satisfy its youth entering the workforce. Going forward, people will move away from employment in agriculture and the unorganised sector to urban India in search of better jobs.

Today India's labour force amounts to around 485 million people, but nearly 50% of this number is employed in agriculture. That acknowledged, India generates only about 18% of its GDP from agriculture, compared with over 25% from industry and a substantial 57% from services. Historically India has depended on agriculture and traditional industries like textiles, leather and gems/jewellery for employment opportunities. Going forward the country must try and replicate the success it has had in Information Technology (IT)/Business Process Outsourcing (BPO) and Generic Pharmaceuticals in other industries. India has a lot of potential in manufacturing industries like automotive, engineering and petrochemicals and these types of activities are generally more labour intensive than services. India's manufacturing sector remains relatively unorganised and fragmented.

Consolidation into bigger units is necessary and it is important the sector becomes more organised as this will lift manufacturing productivity, which is low by regional standards. To be more competitive and profitable, and thereby generate more employment for the aspirational youth, the manufacturing sector also needs labour reform and infrastructure investment. While levels of education have improved, more must be done to lift quality standards and improve technical skills (vocational training), if Indian manufacturing is to undergo its much anticipated renaissance.

India also has the skill set to be a much more significant player in the manufacturing of "value added products" such as in the technology/telecom area. This would have the additional benefit of reducing imports and improving the country's balance of payments position. Defence products would be another related area where India could create or manufacture more "home grown" products. Overall, India is looking to increase the manufacturing component of its GDP to 25% by 2025 from around 14% today. The creation of industrial corridors e.g. Mumbai to Delhi is part of this strategy.

Economy and Budget

While India's GDP per capita has increased from around US$330 in 1991, to an estimated US$1,600 in 2014, it ranks only No. 145 in the world highlighting that the country remains very poor. GDP per capita on a PPP lifts to around US$4,000 and the economy remains heavily dependent on domestic consumption (around 56% of GDP). With India continuing to run budget deficits and ongoing current account deficits financed by capital inflows, international investors' perceptions of the country are crucially important. Fortunately, these have improved substantially since the election of Mr Modi and the BJP last year. This has stemmed from expectations of an improvement in economic fundamentals allied to economic reform and infrastructure investment. Sentiment has also been aided by the fact that India is the 4th largest importer of oil in the world and crude prices have declined dramatically, along with other commodities that India imports.

Finance Minister, Arun Jaitley, presented the much anticipated Union Budget on 28 February 2015, while we were in India.

The Indian Budget projected a fiscal deficit of 3.9% for the year ending March 2016. This compared with earlier expectations of around 3.6% and was significantly impacted by a 55% increase in Central Government payments to the Indian states. Government tax revenues are expected to rise nearly 16% in 2015/16 and appear realistic. The increase in the service tax from 12.36% to 14% and the earlier increase in excise duty on petrol and diesel will materially lift revenues from service tax/excise duties. Direct taxes will also increase as the Government has introduced a new 2% surcharge tax on India's "super rich" (income over Rs10m or A$206,000), albeit the wealth tax was abolished. The Government's revenue position will also be aided by the telecom auction receipts and divestment proceeds (estimated at Rs695billion/A$14.3billion) from the sale of stakes in Public Sector Undertakings (PSU's).

Turning to expenditure, the budget has estimated that interest payments and defence expenditure will increase, but subsidies will remain unchanged at Rs2.4billion. While oil subsidies will fall in 2015/16, fertiliser and food subsidies will continue to rise. Nevertheless, subsidies as a percentage of GDP will fall to 1.7%. Within its planned expenditure, the government has allocated more capital spending to boost infrastructure (power, road, railways), which will be complemented by higher state expenditure on social schemes.

With only 32.7 million Indians (2.7% of the population) paying tax, the government also used the Budget to foreshadow new measures to stamp out tax avoidance and to deal with "black money". In addition, starting in 2017, the Indian Government intends to reduce the country's corporate tax rate from 30% to 25% over a period of four years. As many business exemptions will be removed, the tax system should become less complicated, albeit one in which the effective rate of corporate tax changes very little. The Budget also highlighted the establishment of a Bank Board Bureau (BBB) to improve governance at PSU Banks. This will involve the BBB assisting the banks in selecting CEO's or strategy and in the raising of capital. The BBB seems like the first step towards establishing a bank holding company, although currently the government seems intent on maintaining at least 50% holding in PSU Banks.

Having provided Rs112billion of capital to PSU banks in 2015, a further Rs79billion is budgeted this year. Re-capitalisation of PSU banks in India is critical if growth in the country is to improve.

The Government is also planning to introduce a goods and services tax from 1st April 2016 and has proposed a sovereign gold bond. It is estimated that gold stocks in India amount to around 20,000 tonnes (circa US$830m), but most of this is neither traded nor monetized and the Indian government wants to change this. India remains the largest importer of bullion in the world, along with China.

While the Budget generally met expectations, it is important to remember the Government regards divestment as revenue. Adjusting for this, the country's 2015/16 budget deficit is more like 4.4% rather than 3.9%. Also, to accommodate more infrastructure spending and the payment of a greater share of tax revenue to the States, fiscal consolidation has been delayed. The Government is now aiming to achieve its fiscal deficit target (3% GDP) in 2018. Following recent changes to the methodology for estimating GDP, the Indian Ministry of Finance estimated GDP growth of 8.1%-8.5% in 2015/16, compared with the IMF's more conservative estimate of 7.5%. Lastly, against a background of falling inflation, albeit from elevated levels (IMF forecast CPI inflation of around 6% in 2015/16), the Reserve Bank of India has already cut its Repo Rate twice (2 x 25 basis points) this year to 7.50%. Further reductions in interest rates look likely over forthcoming months.

Urbanisation and Agriculture

As measured by the 2011 Census, India's six largest cities comprise Mumbai (18.4 million), Delhi (16.3 million), Kolkata (14.1 million), Chennai (8.6 million), Bangalore (8.4 million) and Hyderabad (6.8 million) and all are already massive and very dense. Nevertheless, they are destined to become significantly larger and occupy more space.

According to the last Census, some 372 million people were classified as "urban" in 2011 and the World Bank is expecting this figure to rise to 622 million by 2030. India's cities have the potential to become new growth drivers, as the capital spent in their development would include substantial investment in infrastructure, such as power, transportation (rail and roads), housing, education, healthcare and environment. Proper urban development in India will facilitate employment opportunities, lead to better standards of living and improve quality of life. Given the massive investment required (estimates are several trillion US$), over a long period of time, the Indian Government will need to attract private capital from within India and from overseas. This will in turn be dependent on the Indian Government allowing investors an opportunity to earn equitable returns on their investments, while at the same time ensuring strong governance. When demand for portable power generators starts to diminish and fewer bulk water trucks are visible in major cities (we saw many), we will know basic services such as the provision of electricity and water are being priced more sensibly.

While Indian agriculture has enjoyed much improved profitability in recent years, it still suffers from productivity issues, with small scale farms (2-4 hectares is common), poor logistics/infrastructure and the vagaries of the monsoon. After the US, India has the world's second largest arable land area (different from cultivatable land) and produces massive quantities of food. For example, India is the largest producer of milk (including buffalo milk), pulses and spices and the second largest globally in wheat, rice, sugar cane, fruits and vegetables and fish. That acknowledged, going forward Indian agriculture seems destined to change further. Farms need to grow in size and much greater use be made of seeds, fertilisers and agricultural equipment to improve yields. According to the United Nations, India has the largest area of irrigated land (39 million hectares) in the world so water conservation and management will also be critical. Further mechanisation will also help farm sector productivity and provide further reasons to move to cities in search of employment opportunities as less rural labour will be required.

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Technology

India has established a highly regarded reputation globally in respect of both its IT and BPO industries. This has been justly deserved as both have been incredibly successful. Put in perspective, the revenue of the Indian IT/BPO industries has increased from US$6.2 billion in 2000 to US$98 billion in 2014 (source: Ambit).

The Indian acumen for technology will see further benefits accruing to society and the economy in the future. Indeed, the impact is likely to be much greater than people are aware. As a result of technology, citizens have digital records of their existence, identities and property, which is increasing transparency and helping the Government implement policies across India. Whether it is casting votes, starting a company, or filing a tax return, this is increasingly done electronically. The Government has also issued Aadhaar individual identity cards. These provide proof of identity/address and will help people access services like banking, mobile phones and other government and non-government services.

Throughout India banks, insurance companies and other sectors of the economy are benefitting significantly from embracing technology. Going forward, the potential remains huge as India is going mobile and digital. With information for 2014 sourced from Dazinfo, we would highlight the following interesting statistics:

- 1.25 billion people
- 243 million internet users (19% population)
- 106 million active social media users (8% population)
- 886 million active mobile subscriptions (70% of the population)
- 92 million active mobile social users (7% population)

Interestingly only 19% of Indians use the internet and although the number is increasing, only currently 50% of these are using social media. With enhanced speed, more smartphones and greater competition, these numbers will increase in future years. Currently in India some 30% of internet connections are accessed from desktops/laptop computers and 70% from mobile phones and tablets.

Another point worth highlighting is that the number of unique mobile users in India is only 349 million people (penetration rate 28%) which is only 70% of SIM card penetration in the country. Clearly at 13% of the total population smart phone penetration remains low, but this will also change in future years. While India remains a very cash based society, more than 90% of smartphone users avail themselves of their phones before purchasing products and over 50% already use their devices to actively buy products. Mobile phone applications in India already cover social media, streaming videos, game apps, banking and finance applications, and more. Whether it is the Government, corporate India or its citizens, technology development will have a significant impact on the country in the future.

Another interesting aspect of technology is its ability to improve governance. Historically a lot of government aid and subsidies have been lost into the “black market” and become laundered capital. With the planned direct transfer of capital into individual bank accounts, this situation will improve. These initiatives seem likely to catch on quickly as the Indian diaspora around the world transmitted US$65bn to India in 2014, compared with just US$13bn in 2000.

Stock Market

Since Mr Modi's BJP was elected on the 16th of May 2014 the Indian stock market has risen 18.6% in local currency terms and 37% in A$ terms. Valuation criteria for the Indian stock market are currently as follows:

	India	Asia Pacific ex-Japan
Estimated P/E 2015	17.5x	13.1x
Estimated P/E 2016	14.8x	12.0x
Prospective Yield 2015	1.6%	3.1%
Prospective Yield 2016	1.8%	3.4%
Price/Book 2015	2.7x	1.4x
Price/Book 2016	2.4x	1.3x
Earnings Growth 2015	13.6%	9.3%
Earnings Growth 2016	18.6%	9.6%
ROE 2015	16.5%	11.0%
ROE 2016	17.5%	11.2%

Source: JP Morgan

India's 10 year historical nominal CAGR % in GDP has been 11.1% while for EPS it has been 10.3%. In looking at the current rating of the stock market, investors clearly believe Mr Modi will deliver on reform and a new investment cycle to "kick start" growth. While we remain optimistic, there appeared little evidence of a "pick up on the ground" during our trip. As such, we suspect expectations are a little ahead of fundamentals and the market is in for a period of consolidation. Furthermore, a market observer recently stated "Mr Modi was a man and not a God" and any economic transformation in India would take longer than expected as there are many hurdles to overcome. Currently, the Indian stock market has free float market capitalisation of around US$520bn (third largest in Emerging Asia) versus US$3,130bn for China (Shanghai and Shenzhen A) and US$1,270bn for Australia (source: JP Morgan). With over 5,000 stocks, India has the largest number of listed companies of any country in the world.

Market Outlook

While bond, equity and high-end property markets have prospered from quantitative easing, the benefit has not been shared equally by society. Politicians around the world, but particularly in the West, have lacked the determination or will to implement real structural reform. Instead, record low interest rates have been used to try and rectify the situation. Time will tell if this policy works or just temporarily "masks" problems that need "fundamental adjustment". We remain more cautious than consensus and noted with interest a recent report from SwissRe entitled "Financial Repossessions: the Unintended Consequences". In the report, the organisation calculated that artificially low interest rates since 2008 had cost American savers US$470bn. In contrast, the increase to household wealth from stocks had been an estimated US$9tr and from property an estimated US$1tr. The same report states that as the rich are the primary owners of stocks and expensive real estate, that inequality has been exacerbated and the wider economy only marginally benefited. With 70% of American GDP "consumption", lower oil prices will be a positive for growth. Nevertheless, sustained improvements in bank lending and business investment are also critical to the quantum, calibre and sustainability of American GDP growth.

Real GDP Growth (% YoY)					Inflation (%YoY)				
Average	2013	2014	2015	2016	Average	2013	2014	2015	2016
Australia	2.1	2.7	2.7	3.0	Australia	2.4	2.5	1.6	2.3
China	7.7	7.4	6.9	7.0	China	2.6	2.0	0.7	2.1
Hong Kong	2.9	2.3	1.9	2.5	Hong Kong	4.3	4.4	3.8	4.0
India	6.9	7.4	7.6	8.2	India	9.5	5.9	4.6	4.7
Indonesia	5.6	5.0	5.6	6.0	Indonesia	6.1	6.7	5.8	3.7
Korea	3.0	3.3	3.1	3.5	Korea	1.3	1.3	0.8	1.9
Malaysia	4.7	6.0	4.6	4.2	Malaysia	2.1	3.1	1.0	1.6
Philippines	7.2	6.1	6.7	7.0	Philippines	2.9	4.2	1.8	3.1
Singapore	4.4	2.9	2.8	3.5	Singapore	2.4	1.0	(0.6)	0.7
Taiwan	2.2	3.7	3.0	2.8	Taiwan	0.8	1.2	(0.5)	1.2
Thailand	2.9	0.7	3.5	3.8	Thailand	2.2	1.9	(0.4)	1.2

Source: CLSA

We remain quite sanguine about prospects for Asia, but nevertheless fearful an external event could change things quickly. Examples would be a normalisation in American monetary policy with implications for the US$ or a geo-political event. Furthermore, it is important to note the MSCI World Index is close to a record level and some Asian markets have rallied significantly in recent times. An example would be the China A share market which has risen 84% in local currency terms and 124% in A$ terms between 31/3/14 and 31/3/15.

As the tables above from CLSA highlight, while growth in China is slowing this year, some economies like India, Indonesia and the Philippines are projected to record faster growth. Furthermore, inflation throughout the region remains benign, aided by lower oil and commodity prices. This in turn is helping improve fiscal and current account positions, with the exception of Malaysia. Sentiment should be further aided by further interest rate reductions throughout Asia in 2015, with notable exceptions being Hong Kong and Singapore. Lastly, from a valuation perspective, while many Asian equity markets remain “two tiered”, overall valuations remain reasonable with JP Morgan estimating the MSCI Asia AC Ex-Japan index is selling on an estimated 2015 P/E ratio of 13.1x (global average 16.5x) to yield 3.1% (global average 2.6%).

MARCH 2015

Portfolio Characteristics

	Portfolio	Benchmark	Variance
Number of Stocks	48	598	550
Beta	0.86	1.00	-0.14
P/E (X)	15.8	12.5	3.3
Yield (%)	2.3	2.7	-0.4
P/B (X)	2.7	1.7	1.0
Historical EPSg(%)	12.8	13.2	-0.4
Forecast EPSg(%)	11.8	8.9	2.9
Return on equity (%)	17.4	13.6	3.8
Dividend Cover (x)	2.7	3.0	-0.3
Net Debt/Equity (%)	-6.0	27.0	-33.0