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.

MARCH 2017

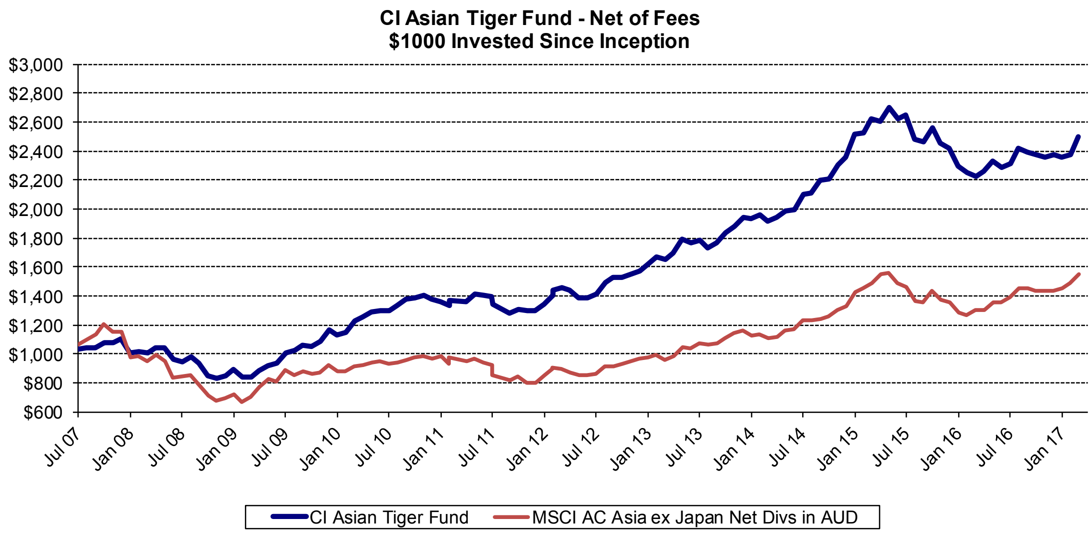
"The longer the night lasts, the more our dreams will be" …. Chinese proverb

"Teachers open the door, but you must enter by yourself" …. Chinese proverb

"Virtue should be as common in the labourer as in the King" … Confucius

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTH	5.76%	7.63%	-1.87%
ROLLING 1 YEAR	13.69%	18.45%	-4.76%
ROLLING 2 YEAR	-1.00%	1.83%	-2.83%
ROLLING 3 YEAR	10.81%	11.68%	-0.87%
ROLLING 5 YEAR	13.38%	11.38%	2.00%
ROLLING 7 YEAR	12.76%	7.75%	5.01%
SINCE INCEPTION*	11.70%	4.58%	7.12%
SINCE INCEPTION^	194.01%	54.79%	139.22%

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



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

MARCH 2017

Market and Portfolio Performance

A core tenet of Cooper Investors' investment philosophy is observation rather than prediction. This has been made all the more interesting by Donald Trump's ascendancy to the Presidency of the USA. To date, this event has had a very favourable impact on the US stock-market. This is despite considerable uncertainty surrounding the exact nature of the new Administration's policies, their implementation and funding.

With Donald Trump not being part of the political elite and a Washington outsider, making predictions seems foolhardy. For an American President his brazen comments are rare, as is his belligerent character. That said, he is clearly out to "make America great again" and keep the country safe. As such, Donald Trump is out to "win".

Economically and militarily, while some have suggested he will make bold, hard decisions and be unafraid of the consequences, others feel he could change his views very quickly. Let's not forget he has all the hallmarks of a great actor with the capacity to surprise.

America's real GDP growth amounted to an anaemic 1.9% in 2016 and the Federal Reserve is only expecting 2.1% in 2017. To get things moving again and to stimulate an investment cycle, Donald Trump is now focussed on fiscal easing. Tax cuts, infrastructure spending and other initiatives are all being discussed, lifting optimism and business sentiment. Central to the Republican theme is to get US corporates to invest at home, rather than in lowly taxed overseas jurisdictions and then simply sell their products back into America. Various proposals have been put forward to fund this plan, including a Border Adjustment Tax, import tax / tariffs and other changes to the tax code. A good example is the removal of the exemption of not paying tax on income earned abroad, contingent on it not being repatriated to the USA. Worth highlighting is that comparatively few large American companies pay the statutory 35% corporate tax rate. Furthermore, if tax cuts are coming, then the American tax base will broaden and deductions will be removed, as part of the reform process. From Asia's perspective, the main debate associated with the above, has been what implications it may have for free world trade and has the threat of protectionism increased. Until American policy is "set", it is impossible to know the answer to these questions. That said, export orientated Asian stock-markets like Korea and Taiwan have put in sanguine performances of late despite the uncertainties.

The Federal Reserve in America lifted interest rates 0.25% to 0.75-1.00% in March and consensus expects more increases to follow. Complicating the situation is that Janet Yellen, whose term as Governor of the Federal Reserve ends in 2018, seems to have a different view on fiscal easing and its funding than Donald Trump. Against this background, it is not surprising that interest rate sensitive / currency vulnerable Asian markets lagged the MSCI AC Asia Ex Japan market over the March quarter. Examples include the Philippines, Indonesia, Thailand and Malaysia. In contrast, the best returns were had from the Indian and Korean markets which rose 11.2% and 10.9% respectively in A$ terms with net dividends. As an aside, in local currency terms China and Hong were the best performing markets. Over the last three months the MSCI AC Asia Ex-Japan market rose 7.6% (A$ terms / net dividends) materially outperforming the MSCI AC World Index which increased only 1.5% (A$ terms / net dividends). In contrast, the portfolio rose 5.76% resulting in underperformance against the Benchmark of 1.87%.

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

MARCH 2017

MSCI Data with net dividends	Mar Qtr 2017 in A$ terms	Mar Qtr 2017 in local currency terms	12 month to Mar2017 2016 in A$ terms	12 month to Mar2017 in local currency terms
AC World	1.5%	5.7%	16.0%	17.0%
AC Asia ex JP	7.6%	10.2%	18.5%	16.7%
China	7.2%	13.1%	20.7%	19.9%
Hong Kong	7.6%	13.7%	17.6%	16.8%
India	11.2%	12.1%	19.4%	16.1%
Indonesia	1.5%	5.8%	13.4%	13.0%
Korea	10.9%	8.2%	21.9%	18.2%
Malaysia	2.8%	6.8%	-7.3%	4.5%
Philippines	0.7%	7.1%	-6.5%	1.0%
Singapore	7.7%	9.8%	10.5%	13.6%
Taiwan	6.1%	5.2%	24.0%	16.0%
Thailand	3.1%	4.2%	18.6%	14.8%

India was the “stellar” market over the March quarter (+11.2% in A$ terms with net dividends) as can be seen from the above table. A more detailed commentary on this market can be found later in the quarterly. Korea was the second best performing market over the quarter, rising 10.9% in A$ terms with net dividends. As a country, Korea has market leading positions in various industries like semi-conductors, automobiles, and shipbuilding. With some 25% of Korean exports now going to China compared to 21% ten years ago, the country is also seen as a proxy play on China. Furthermore many Korean companies are benefiting from Chinese tourism and consumption trends, notwithstanding recent impediments (THAAD related – this is an anti-ballistic missile defence system) and Korean FMCG companies continue to expand in China.

A number of Korean companies have market leading industry positions that generate strong cash flows, while at the same time having an educated and comparatively modestly paid workforce. Many of these companies are also very innovative when it comes to technology and the development of “sunrise” industries. That said, the Samsung Electronics product recall and the bankruptcy of Hanjin Shipping last year were major disappointments.

Also Korea will have to be careful from a competitive position, given the narrowing of the technology gap, between itself and other emerging market nations. Interestingly Korea’s 5 largest exports (61% of total) to China were semi-conductors, flat display, petrochemicals, general machinery and wireless communication devices. While the country faces political risk associated with North Korea, a rapidly aging population and high consumer debt, the Government is in a good position fiscally, giving it policy flexibility. One of the main impediments to our team not being more positive on what is an ostensibly cheap market, is that we believe corporate governance in Korea is poor (albeit there are signs this may be changing). Recent examples of this were the March impeachment of Korean President Park over her role in a corruption scandal. South Korean prosecutors have also charged Mr Lee, the Vice Chairman of Samsung Electronics with bribing President Park and her confidante Ms Choi with US$38million for political favours, relating to the consolidation of family control over various Samsung related companies. Interestingly the next President of Korea could be Mr Moon Jae. He is from the opposition party and is a strong advocate of chaebol reform.

Also over the last 3 months, investors became more enamoured with the Chinese (+7.2% in A$ terms / net dividends) and Hong Kong (+7.6%% in A$ terms / net dividends) markets. Both these markets have “valuation support” as well as better news flow, giving them “relative appeal” viz a viz other regional markets. The Hong Kong market continued to benefit from southbound flows. Mainland investors continue to purchase H shares at a discount to A shares. H shares provide good yields and a currency hedge. China’s

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

MARCH 2017

GDP Growth in 2016 slowed to 6.7% from 6.9% in 2015 and Premier Li Keqiang recently stated the Government's target of GDP growth of 6.5% in 2017 will "not be easy to meet". Despite this, China has tightened monetary policy in recent months and this suggests it is happy with the current growth trajectory in its economy. Action may also have been prompted by the acceleration in CPI inflation which amounted to 2.0% in 2016 and is set to increase further in 2017 to around 3.0%. Other motives may have been that higher interest rates also dissuade leverage and make capital outflows less appealing. Indeed, China's FX reserves fell below US$3 trillion recently, although since the start of calendar 2017, the RMB has actually appreciated against the US$ by 1% compared to a decline of 7% in 2016.

Further to our comments in the last quarterly report, China's growth will continue to be underpinned by Fixed Asset Investment (FAI) and in particular, spending on infrastructure. While FAI rose more slowly in 2016 at 8.1% YOY, infrastructure investment increased over 16% in the same period. This robust trend looks set to continue as infrastructure and urbanisation are key pillars of China's 13th Five Year Plan. This is a positive as it will offset any weakness in consumption in the Chinese economy. Real retail sales growth was just under 10% in 2016, but fell to a little over 8.0% YOY in February 2017. Outside infrastructure, FAI investment in property and manufacturing will grow at a more modest space. With Chinese GDP growth dependent on FAI in infrastructure, many observers feel the country is not doing enough to deleverage its financial sector and prompt reform. Remember, overall credit growth (banking, shadow banking and corporate bonds) increased 15% to around RMB 17.3trillion in 2016 which is far in excess of GDP growth. While supply side reform continues, more State Owned Enterprises (SOE), work needs to be done. We hope the reform process will start with a greater sense of urgency in 2018, as the current business model is unlikely to be sustainable.

Notwithstanding the above comments, the National People's Congress (NPC) held recently gave no indication that Chinese Government policy would be changed, at least in the short term. Among the highlights that did emanate from the event were:

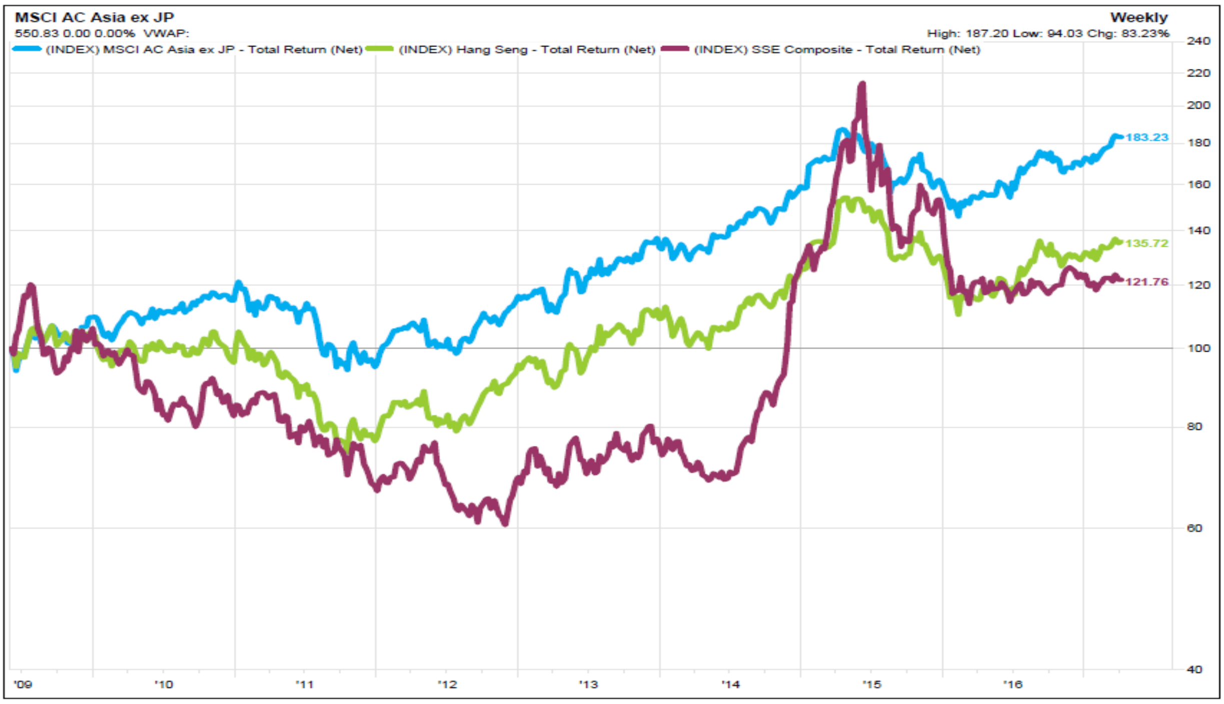
- A reaffirmation of a 2017 GDP growth target of 6.5% (v 6.7% in 2017)
- To restrict the increase in China's CPI to 3.0% in 2017
- To create 11m new jobs in 2017 (2016 = 10 million) and keep the unemployment rate steady at 4.5%
- Having achieved circa a 6.5% growth in personal income in 2016, to aim for a similar increase in 2017. Per capita disposable income of urban residents was RMB 33,616 compared to RMB 2,363 for rural residents in 2016.
- A budget deficit of 3% is expected in 2017
- Total Fixed Asset Investment is projected to increase by around 9% in 2017;
- Continued supply side structural reform, especially in the steel and coal industries. In 2016, steel production capacity was cut by 65m tonnes and coal by 270m tonnes. The Government has established at RMB 100 bn fund to help workers made redundant.
- To establish a sound permanent mechanism, for ensuring steady and healthy development of the real estate industry, "Houses are for habitation not speculation".
- The government continues to implement policies to boost domestic demand. That said, while household consumption is rising it still accounts for only some 39% of GDP;
- The government estimates retail sales of consumer goods to be around 10% in 2017;
- Reaffirmation that China's (Central and Local Combined) debt to GDP ratio was not high at 36.7% (2016).
- Affirmation that debt in China's Non-Financial corporate sector was too high and that a better equity market would assist the deleveraging process;
- To continue to develop the Silk Road Economic belt and the 21st century Maritime Silk road;
- Continue to prompt City Cluster developments like those in the Yangtze and Pearl River Delta's, while developing new ones. China's urban population has risen from 53.7% in 2013 to 57.3% in 2016, and will continue to increase about 1% per year;
- To focus on regional initiatives, be it the development of Western China, or the revitalisation of North East China.

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

MARCH 2017

In addition to the aforementioned, China confirmed it was looking to implement a Bond Connect programme between the mainland and Hong Kong later in 2017. This will allow overseas investors, who own less than 2% of Chinese debt, greater access to the third largest bond market in the world. This move will also generate cash inflows into China, alleviating capital outflows and therefore be positive for the RMB.
It seems likely China will maintain a managed Floating Exchange rate, with the China Foreign Exchange Trade System (CFETS) being its primary reference point, as has been the case since CFETS was introduced in December 2015. While the RMB might depreciate against the US$, if it is strong, we do not expect the Chinese government to pursue a policy of overt depreciation. We also believe that President Trump's decision to honour the "One China" policy in a call with President Xi Jinping was a sensible and pragmatic move.

As was mentioned earlier, we would be very surprised if any major policy changes were announced in China, before the 19th National Congress of the Communist Party, due to be held in the autumn of 2017. This will enable Xi Jinping to consolidate power, which is seen as a precursor to further more substantial reforms, which we believe will be forthcoming. That said, with FAI being such a significant part of GDP growth, making structural changes in the Chinese economy is going to take time and be very challenging. Almost certainly, GDP growth rates will fall, albeit further growth should be more sustainable and of better quality. In addition to this, if the reform process is seen to be genuine, a logical outcome might well be an expansion in P/E ratios. This would be a significant positive for the Chinese and Hong Kong markets, which have under-performed the benchmark since 2009 (see table below).



The other issue facing China is the possibility of a trade war with the USA. We hope common sense prevails. In reality as the two largest economies in the world both countries need each other. While the US trade deficit with China was US$347bn in 2016, the PRC is also a major purchaser of American products. By way of an example, CLSA recently highlighted the "the US needs China as 26% of its Boeing aircraft, 56% of soybeans, 16% of automobiles and 15% of integrated circuit boards are exported to China". Despite the aforementioned, there has been much rhetoric from President Trump about additional imposts on countries like China that have substantial trade surpluses with the US. At this juncture, multiple forms of tax are being debated from a Border Adjustment Tax right through to tariffs. What is decided, when it may be implemented and its impact on a country like China is impossible to predict. That stated, recent analysis by CLSA estimated the primary impact of a 20% Border Adjustment Tax (constant US$ against the RMB) would result in China's export growth declining 7.4%, while the value of exports to the USA would fall 18%. The overall impact would be to slow Chinese GDP growth 0.8%, albeit the aforementioned figures are dependent on various assumptions.

Most of the relatively poorer performing Asian markets over the quarter were in South East Asia. While GDP data in the Philippines continues to be good and fixed asset investment positive, investors remain wary of perceived heightened political risk associated with President Duterte. Highlighting this point the industry association of the Business Process Management or BPM companies in the Philippines expects their collective revenue to grow 9% CAGR to reach US$40bn by 2022. This is lower than in the past, although still in excess of the likely 4% growth in Overseas Remittances going forward.

Politics is again "front and centre" in Indonesia, with another round of elections to be held in April, for the position of Jakarta governor. If President Jokowi's candidate is not successful, this would be viewed negatively. Also, despite government spending on infrastructure, private sector investment remains poor and real minimum wages have risen 40% (source CLSA) since 2013. While higher commodity prices are a positive for Indonesia in the short term, going forward it needs to develop a larger manufacturing base.

The Portfolio

During the quarter, the Fund made an investment in **Central Pattana** ("CPN"), the leading mall operator in Thailand. CPN distinguishes itself from other mall operators by targeting the mid and premium market through its 30 properties pan Thailand. CPN is majority owned by the Chirathivat family, which is one of the pre-eminent retailing groups in the region. As a member of the Central group, the company has access to numerous well-known retail brands. Prospects for the stock are underpinned by new mall openings, continued property improvement programs and annual rental increases. Expansion outside of Thailand and asset recycling opportunities provide upside.

The Fund sold its holding in **Manila Water** following a reassessment of the potential regulatory risks associated with an upcoming tariff ruling. The Fund also participated in BDO Unibank's rights offering, during the quarter.

Other changes made to the portfolio were comparatively modest, outside of the aforementioned.

During the quarter, the top performing stocks included **Jardine Strategic, Chow Sang** and **IndusInd Bank**, whilst detractors to performance included **Hollysys, Shenzhou and Holcim Philippines**. Relative to the benchmark, the Fund was negatively impacted by its cash holding, being overweight the Philippines and underweight Korea, albeit partially offset by being overweight India and underweight Taiwan.

From an investment style perspective, the portfolio currently has 3% of its fund invested in Bond Like equities, 48% in Stalwarts,16% in Growth Companies, 19% in Cyclicals, 1% in low risk Turnarounds and 5% in Asset Plays.

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

MARCH 2017

The current geographical weightings of the portfolio relative to its benchmark are as follows:

	Initial Portfolio	Benchmark	Initial Benchmark
Hong Kong/China	41.9	42.6	-0.7
Indonesia	3.9	2.9	1.0
India	16.2	10.3	5.9
South Korea	5.1	17.6	-12.5
Malaysia	2.3	2.8	-0.6
Philippines	4.3	1.4	3.0
Singapore	8.6	5.5	3.1
Thailand	3.8	2.6	1.1
Taiwan	5.4	14.3	-8.9
Percentage of Portfolio in Cash	8.64		

International Trips – Observations and Comments

During March, team members undertook a two week trip to India. There is an enormous amount of change going on in India at the moment and we all found the trip very insightful. Among some of the more interesting observations and comments to come out of the trip were…

Politics

While in India, the results from the 5 provincial elections, held in Uttar Pradesh, the Punjab, Uttarakhand, Goa and Manipur were announced. By far the most important of these was Uttar Pradesh, which the BJP won convincingly, claiming 312 out of the 404 seats available and nearly 40% of the vote. The BJP also won in Uttarakhand. The Congress party was the winner and the biggest party in Gao and Manipur. Nevertheless the key state was Uttar Pradesh and the margin by which the BJP won was unexpected. This indicates the level of support Narendra Modi has from ordinary Indians and indicates widespread acceptance of the policies he is implementing. In short, people want better governance, all-inclusive economic growth and better lives. As such they are voting for development and prosperity rather than along the more traditional lines of race, religion, region and caste. The outcome of the election in Uttar Pradesh increases the chance that Narendra Modi and the BJP will be re-elected in 2019 and at the same time significantly increase their presence in the Upper House or Raya Sabha.

Economy and Finance

Under Narendra Modi, India has made substantial progress. Amongst the numerous positives we would highlight of being of particular importance are, less corruption, the reform impetus, development of the digital economy and power improvements. Conversely India must recapitalise the Public Sector Banks (PSU), implement further reforms (example – labour market reform), stimulate an investment cycle and create more jobs. As such, much work remains to be done.

We think India is a fertile environment for investment. Politically it has a strong leader who is implementing major reforms. From a demographic perspective trends are positive and economic growth remains robust. The Indian story is domestic demand centric, albeit the country has built two robust global industries in IT / BPO and Generic Pharma. The opportunity set for investment is much larger than in many other Asian markets and the inherent quality of many companies is excellent. Lastly, there are many structural tailwinds in industries such as financials, FMCG, healthcare, internet and manufacturing (automotive is a good example).

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

MARCH 2017

There has been much debate about the need to improve infrastructure in India, but progress is being made. The first phase of the Western Dedicated Freight Corridor linking Delhi and Mumbai is expected to be completed in 2019. It should be fully operational in 2021, having cost up 100,000 crore with finance from Japan. The aim of the project is to reduce haulage costs by 50% and make India more competitive with China.

The outlook for Indian companies providing clients with saving solutions is very favourable. The Indian economy is around US$2.4 trillion in size. Indians save around 30% which equates to US$800bn per year. Historically, only US$300billion out of this US$800million has gone into India's financial system. The balance has gone into property, gold and jewellery and "cash under the bed". Furthermore, of the US$300billion that has gone into the financial system, only US$15billion has found its way into the stock market. Things are now changing and flows into the stock market could double in the next 12 months and conceivably amount to US$50billion a year by 2020.

We remain positive about the opportunities in the Indian banking sector despite recent anaemic growth, which of course has been impacted by demonetisation. In the most recent quarter to December 2016, bank system credit growth was under 8%, the slowest rate since the global finance crisis. In contrast, deposit growth was over 16% as the system was flooded with liquidity.

Over the long-term, we view demonetisation as a clear positive for the banking and broader financial sector. The reforms encourage greater levels of financial savings to be held in the formal system. This lowers the cost of capital for banks and businesses and, over time, encourages greater investment and credit demand. That stated, PSU banks, which account for 70% of system loans, still face legacy asset quality problems and are capital constrained. This provides a wonderful opportunity for Private Sector banks. As one bank executive stated "there is enough business to take from PSU banks until my retirement". These two big trends: 1) greater levels of financial savings in the banking system and 2) financial constraints on PSU banks are behind our decision to invest in private sector banks over PSU banks and Non-Bank Finance companies (NBFCs).

Banking is a complex industry and "bank balance sheets are a good place to hide problems". The same commentator (ex-private sector) went on to say "the days of making easy capital from the Indian banking sector are over". Ongoing consolidation will also occur in the Indian banking industry, which will be another positive.

Comments from various finance industry executives that we met with included…

1. "Housing Finance in India is currently a bubble."
2. "The life insurance industry in India is coming of age and has exciting growth prospects."
3. "Liquidity is the key to building market share and profitability in stock and commodity markets".
4. "As market efficiencies have increased greatly in India, long term investors seeking alpha will have to move down the value chain (smaller market capitalisations), or hold quality names for long periods of time. Either way good analysis will be critical."

Agriculture in India is very seasonable and dependent on Monsoons. Two crops are grown; comprising a summer crop (Kharif) and a winter crop (Rabi). Agriculture is critically important in India comprising around 17% of GDP, but employing nearly 50% of India's 500m workforce. Rice, which is grown all over India, is the country's staple food. Horticulture (vegetables, fruits and pulses) is another universal crop, while wheat is only grown in northern India. Other crops of importance include cotton, jute, sugar cane, soy beans, tea and spices. As Indian agriculture is inefficient and production low, companies supplying fertilisers and crop protection products should have good growth prospects.

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

MARCH 2017

Industry

Nasscom expect the Indian Information Technology/Business Process Management (IT-BPM) industry to grow 8% in FY2017 to around $154bn. Nevertheless with disruptive technologies impacting on the industry the “modus operandi” continues to evolve:

Stage 1 - Labour arbitrage.
Stage 2 - Process efficiency.
Stage 3 - Specialisation using technology.

In short, the industry is moving from labour to production using robotics. For example, the accounts payable and other functions that historically had used a human manual input process have now moved to digital. Subject expertise (aka Domain expertise) in a particular industry like banking / finance, insurance, healthcare, travel etc is crucial to success. Going forward the industry is positioning itself as the Digital Solutions Partner to clients around the globe.

India is one of the world’s leading adopters of the “internet of things” (IOT). This is commonly recognised as a network of devices, appliances, equipment and machines, with the capability to connect, communicate, and control each other. Examples would include products used in monitoring and maintenance, remote operation and controls and surveillance.

Since the year 2000 it is estimated that around US$21bn has been invested in Indian internet and ecommerce ventures. Some US$13-15bn of this has been invested over the period 2010-2015. Interestingly, market observers believe that since inception some US$9billion has been invested in just a few companies, the biggest of which are the obvious names (Amazon India/Flipkart/Snapdeal). Furthermore, of all the companies to receive private equity capital only 2-3 are currently profitable. In the internet and ecommerce space you only ever hear about winners!

Healthcare is an industry with enormous growth potential in India and the leading player Apollo Hospitals caters to all sections of Indian society. As an Apollo executive commented “while hospital rooms and services may vary, everyone is equal in the operating theatre” and went on to say “India needs 100,000 new hospital beds in each of the next 10 years”.

Cancer unfortunately impacts on so many people around the world and India is no different. The incidence rate of cancer is increasing 8% per year in India. Some 1.5 million new cancer patients are diagnosed each year and it is estimated some 3.5-4.0million people live with cancer.

Cancer care in India is characterised by:

1. High incidence
2. Under diagnosis
3. Late detection
4. Lack of medical equipment and hospitals.

Today, around 25% of India’s population now has some form private health insurance and this trend is helping the Healthcare industry to develop.

Healthcare in India comes in many forms. Indeed demand for Ayurveda products is increasing due to rising incomes and the desire to purchase “back to nature products” that are Indian in origin and made locally. While the history of Ayurveda goes back some 5,000 years, the industry is only worth around US$1bn a year, which is significantly smaller than the traditional Chinese medicine market. The Ayurveda market has received much press comments of late, associated with the success of Pantajeli Ayurved. Private sector players stress their "sciences based approach" to developing Ayurveda products, whereas others have more of a "faith based approach". All up, demand for Ayurveda products look set to grow nicely over future years.

The value proposition for Indian generic pharma companies, who have "not chased the uncertainties of science", are built around:

1. Competitive pricing
2. Quality and speed of product delivery
3. Relationships with clients (distributors).

Historically compliance has also been good, but more recently continued FDA notices across the sector have hurt the industry's reputation. Despite this, some 35% of generic drugs (by volume) that enter the USA come from India. Furthermore, India has the second highest number of FDA approved plants in the world (behind only the USA itself). The future growth focus for Indian generic pharma companies is in "value add" areas like injectables and biosimilars.

There has been a lot of analysis on Indian FMCG companies in recent years and many have ventured into overseas markets. One FMCG company we saw in India has a well-defined market strategy, which centres on the following:

1. Markets with a per capita income of US$5,600 (or below) per head of population
2. A young population
3. Low penetration of targeted products
4. A preference for "fringe" category products
5. Countries or regions with a significant proportion of unorganised retail
6. Markets that have rule of law, albeit "travel warning notices" are acceptable. A further refinement of its food market strategy is to concentrate on health / wellness products and focus on breakfast, in between meals (grazing) and functional foods.

Concluding comments from this meeting was that "Indians like hot, savoury, crunchy food products; they don't like cold food" and "our Company's way of doing business is to focus on…

1) How: this involves compliance, processes and standardisation.
2) What: this involves the portfolio, route to market and localisation.

It's amazing how different countries are. Milk in India is sourced from both cows (55%) and buffalo (45%). The average size of a farm in India is a tiny at 2.5 hectares. A typical dairy farmer might have just 2-3 cows that yield 6-8 litres of milk per day. Furthermore, some 46% of milk in India is consumed at source by the farmer and his family or in the local village. As such only 54% of the milk produced in India is "marketable".

Further, of this 54%, only 25% is sold via organised channels and the balance of 75% by unorganised channels. While Hindu's refrain from eating beef and Muslims pork for religious beliefs, they love milk and cheese. As such, pizza, which is now regarded as a "global food" is very popular in India, albeit the ingredients used, are localised for Indian preferences. We have no doubt that consumption of milk and dairy products will continue to rise in India. This presents a market opportunity for both farmers and companies in Australia and New Zealand.

Investing in emerging markets is time consuming, complicated and expensive. Illustrating the point, even large multi-national corporations like Diageo, which has a presence in many emerging markets, has found "none are as complicated as India".

Per capita consumption of beer in India is 1.9 litres compared to 34.5 litres in China and nearly 65 litres in Brazil. Nevertheless, industry growth is inhibited, because beer is over 2.5x more expensive than spirits in India, due to taxation when measured per unit of pure alcohol. Despite this growth in the consumption of alcohol is increasing due to rising disposable incomes, favourable demographics, an increase in urbanisation, changing lifestyles and wider social acceptances.

An industry executive stated that the concept of "having a drink in India is moving away from the desire to simply become intoxicated to socialisation." This is a good thing and while impediments like religious beliefs, some social customs, taxation and regulatory burdens will continue to exist; their impacts seem likely to diminish in significance over time. As an aside, it is important to note that while India's population amounts to some 1.2billion people, the addressable market for alcohol consumption is much smaller at around 150m people. In contrast to alcohol, social acceptance of tobacco and smoking continues to decline.

"India currently has only 1 bus per 1,000 people compared to around 15 in China and Brazil". This creates a sizeable market opportunity for commercial bus and truck manufacturers.

Many Indian companies have expanded into Africa and this trend looks set to continue. The attraction for many of those companies have been the similarities between India and Africa, despite the fact that India is an emerging market and most in Africa would be better termed frontier markets. Some of these similarities that exist may be summarised as:

1. Huge emerging populations
2. Lack of infrastructure
3. Frugal lifestyles and low incomes
4. Government interference
5. Large Indian population living in Africa

On a concluding and more light-hearted note a friend mentioned that "Irrespective of economic climate, Indians will always have cricket and Bollywood". Even today 80% of all movies watched in India are from Bollywood and only 20% from Hollywood.

Market Outlook

While Asian markets have performed well over the quarter, they have still substantially underperformed relative to the MSCI AC World Index since the Global Financial Crisis (GFC). We feel this trend has the potential to continue. We would remind readers that the markets represented by the MSCI AC Asia ex Japan index still account for only 9% of the MSCI World Index. In contrast these same markets account for over 24% of global GDP and some 43% of the world's population. Furthermore, Asian markets remain tiny compared to developed markets. According to JP Morgan the US market (NYSE/NASDAQ/AMEX) had a Free Float Market Capitalisation of US$24,654bn in April 2017. In contrast China's (Shanghai and Shenzhen A) was just US$2,804bn and India's only US$707bn. For comparison purposes, Australia with a population of just 24m was US$1,269bn.

While perhaps not as productive as many Western countries, the Asian work ethic remains very strong. How much of this due to strong family values, strict discipline, academic performance, competitive attitudes, or in China, plain Confucian values (humility/harmony/respect) is difficult to measure. Nevertheless these are the sort of things that make Asians realise they are still behind the West in terms of economic development. This coupled with a lack of a social security, the desire to ""get ahead" and the shame associated with lack of success, are strongly motivating factors in Asia. This has manifested itself, with "entrepreneurial flair", in many Asian manufacturing success stories over the years. These companies have embraced technology, kept costs low, prices keener, built brands, established marketing networks and from humble origins have internationalised themselves. The same has been true in service industries – think Singapore Airlines, or the Thai tourism industry. More recently internet, e commerce and technology companies like Baidu, Alibaba and Tencent have ""come of age". All this gives us considerable faith that Asia should be an integral part of any long term global equity portfolio. Indeed we much prefer Asia to the wider global emerging markets universe.

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

MARCH 2017

Portfolio Characteristics

	Portfolio	Benchmark	Variance
Number of stocks	46.00	627.00	-581
Beta	0.86	1.00	-0.14
P/E (x)	16.30	12.90	3.40
Yield (%)	2.04	2.60	-0.56
P/B (x)	2.19	1.50	0.69
Historical EPSg (%)	11.74	9.13	2.61
Forecast EPSg (%)	10.12	12.81	-2.69
Return on Equity (%)	13.59	11.59	2.00
Dividend Cover (x)	3.01	2.98	0.03
Net Debt/Equity (%)	-8.25	20.76	-29.01

Source: UBS PAS