CI ASIAN TIGER FUND
QUARTERLY REPORT

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

SEPTEMBER 2015

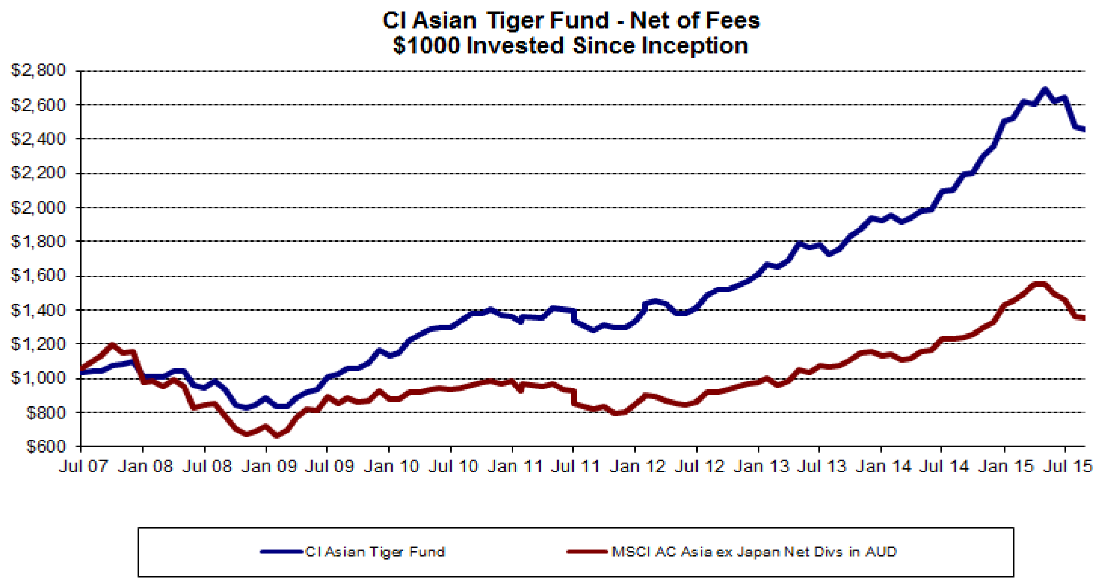
"Work on your own salvation. Do not depend on others." Buddha.

"The butterfly becomes only when it is entirely ready." Chinese proverb.

"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	-5.63%	-9.20%	3.57%
ROLLING 1 YEAR	13.84%	9.16%	4.68%
ROLLING 2 YEAR	19.99%	12.37%	7.62%
ROLLING 3 YEAR	20.26%	13.95%	6.31%
ROLLING 5 YEAR	14.23%	7.07%	7.16%
ROLLING 7 YEAR	17.11%	8.20%	8.91%
SINCE INCEPTION*	13.50%	3.75%	9.75%
SINCE INCEPTION^	184.25%	35.49%	148.76%

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



SEPTEMBER 2015

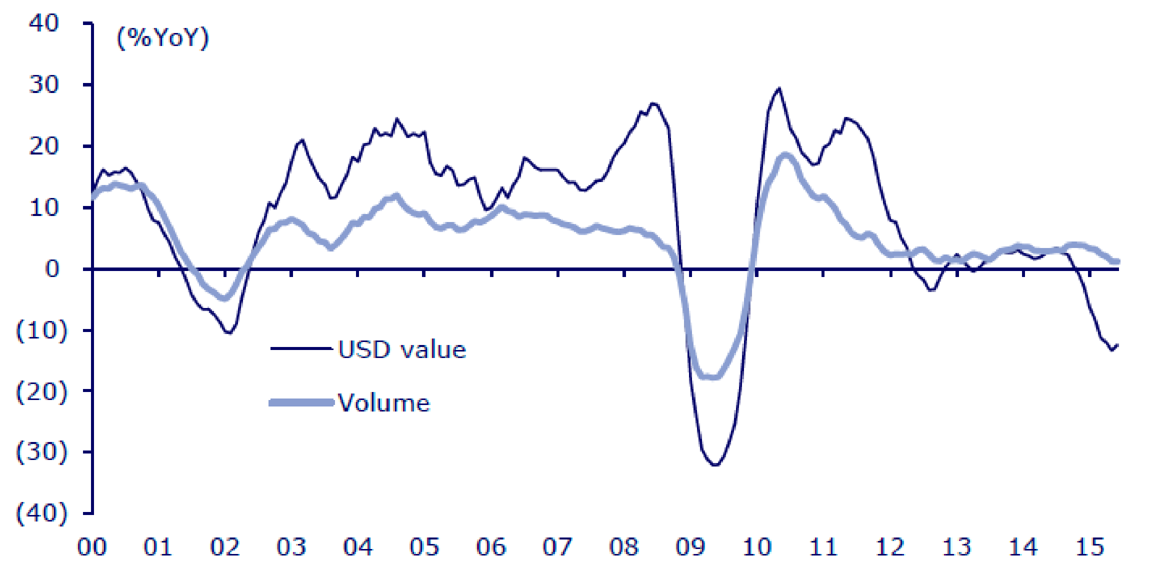
Market and Portfolio Performance

Over the September quarter, world share markets and in particular those in Asia, succumbed to a number of negative influences. Weaker growth in China and a surprise devaluation to its currency, have again highlighted the challenges the country faces in transitioning its economy from investment to consumption led growth. Associated negative sentiment is also impacting other emerging economies, their currencies and commodity prices. Concurrently the Federal Reserve is trying to normalise monetary policy with many investors expecting interest rates to increase shortly. Whether this occurs remains open to conjecture. Indeed with American GDP “range bound” between 2.0%-2.5%, after years of QE and all its associated cost, growth hardly looks robust. Interestingly, the yield on the American 30 Treasury bond declined from 3.127% on the 30/6/15 to 2.857% on the 30/9/15. This move seems at odds with the perception that the US economy is gathering momentum and that interest rates are set to increase imminently. Then again, the perception of safety, yield and a strong currency in a deflationary global environment, must all be currently helping the American bond market.

Central banks in most nations around the world are also struggling with deflation. Commodity prices are weak and this is another factor helping the US$, which most investors simply attribute to the prospect of higher interest rates. News flow out of China over the last few months has also been poor. China has been impacted by lower economic growth, currency devaluation and the continuing correction in the share market. Looking back, these developments could have been handled by the Chinese Government in a more appropriate way and it has lost credibility.

Anaemic world growth is nicely highlighted by the following graph which highlights the substantial fall in global trade volumes and value that has occurred in recent times. While few details are known the recently signed TPP Trade deal is very positive for Asia and global growth.

Global trade volumes and values (3mma %YoY)



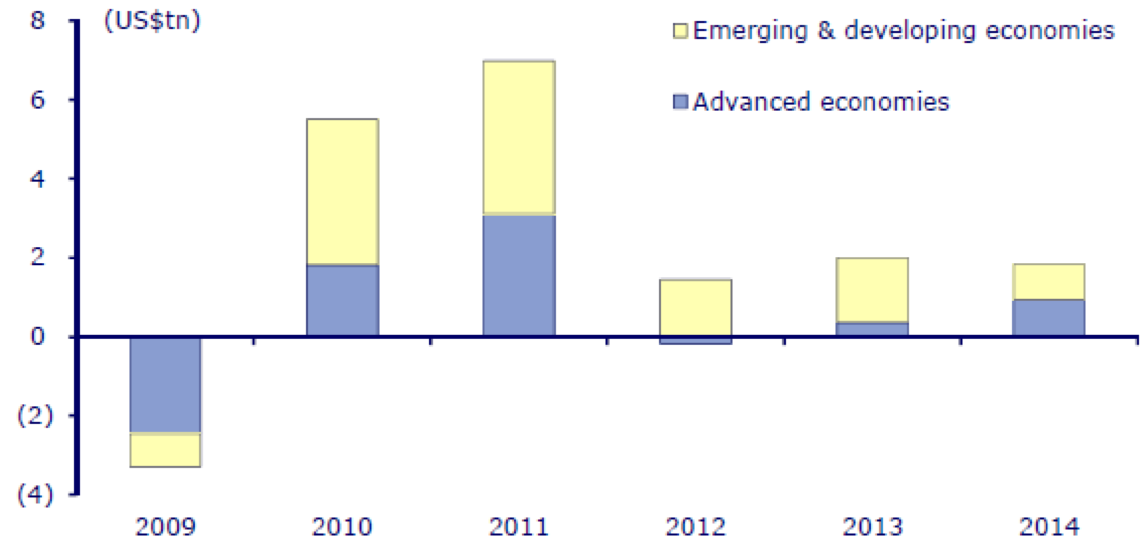
Source: CLSA, cpb.nl, DataStream

Interestingly, the global slowdown in trade is being caused more by emerging markets, who are significantly commodity dependent, rather than developed nations who are more service orientated. Excess supply (new resource projects and OPEC) together with weak offtake in China are the two main factors negatively impacting on commodity prices.

Collectively the aforementioned events ensured that global investors opted for a more defensive positioning of their portfolios in the September quarter. Redemptions and fund selling have been significant, especially in emerging markets. Indeed it is estimated by EPFR Global that emerging market equity funds have lost nearly US$60billion in capital during 2015 year to date.

While some believe the developed world will be rather immune from what is happening, in emerging markets we doubt the validity of such beliefs. As CLSA recently highlighted “emerging markets have accounted for 75% of the increase in world nominal GDP in US$ terms since 2009”.

Annual increase in world nominal GDP in US dollar terms 2009-2014



Source: CLSA, IMF

Against this challenging backdrop it is hardly surprising the MSCI Asia Ex-Japan Index fell 9.2% in A$ terms in the September quarter. This was a great deal more than the decline of 0.9% in A$ terms recorded by MSCI AC World Index over the same time period. The returns on both indices would have been worse had it not been for the continued depreciation in the A$.

MSCI Data with Net Dividends	September Quarter 2015 in A$	September Quarter 2015 in Local Currency
AC World	-0.9%	-3.2%
AC Asia Ex Japan	-9.2%	-13.9%
China	-15.4%	-22.7%
Hong Kong	-8.2%	-16.2%
India	+2.1%	-3.9%
Indonesia	-17.1%	-16.7%
Korea	-3.5%	-6.3%
Malaysia	-10.5%	-4.7%
Philippines	-1.9%	-7.1%
Singapore	-11.9%	-15.1%
Taiwan	-9.1%	-11.4%
Thailand	-9.8%	-11.5%

Source: FactSet

SEPTEMBER 2015

During the quarter the A$ continued to fall against the Asian currencies in the portfolio's benchmark index. The exceptions were the Indonesian rupiah (+1.1%) and the Malaysian ringgit (+7.4%). This was hardly startling as key commodities like oil (-24.2%) and copper (-10.6%) all continued to decline over the period. Even gold, which continues to have investment merit as an "insurance hedge" in these volatile times, fell 4.8%.

Remember the commentary of Seth Klarman… "Gold is unique because it has the age-old aspect of being viewed as a store of value. Nevertheless, it's still a commodity and has no tangible value, and so I would say gold is speculation. But because of my fear about the potential debasing of paper money and about paper money not being a store of value, I want some exposure to gold."

Over the last three months, the Chinese market has been both volatile and weak (-15.4% in A$ terms). As we mentioned during a recent investor conference, the Chinese indices performed very well in the financial year ending 30 June 2015, notwithstanding a correction in the last two weeks of June 2015.

Index	Change between 01/07/2014-30/06/2015 in local currency terms
Shanghai Stock Exchange	108.6%
MSCI China	21.0%
MSCI Hong Kong	9.4%

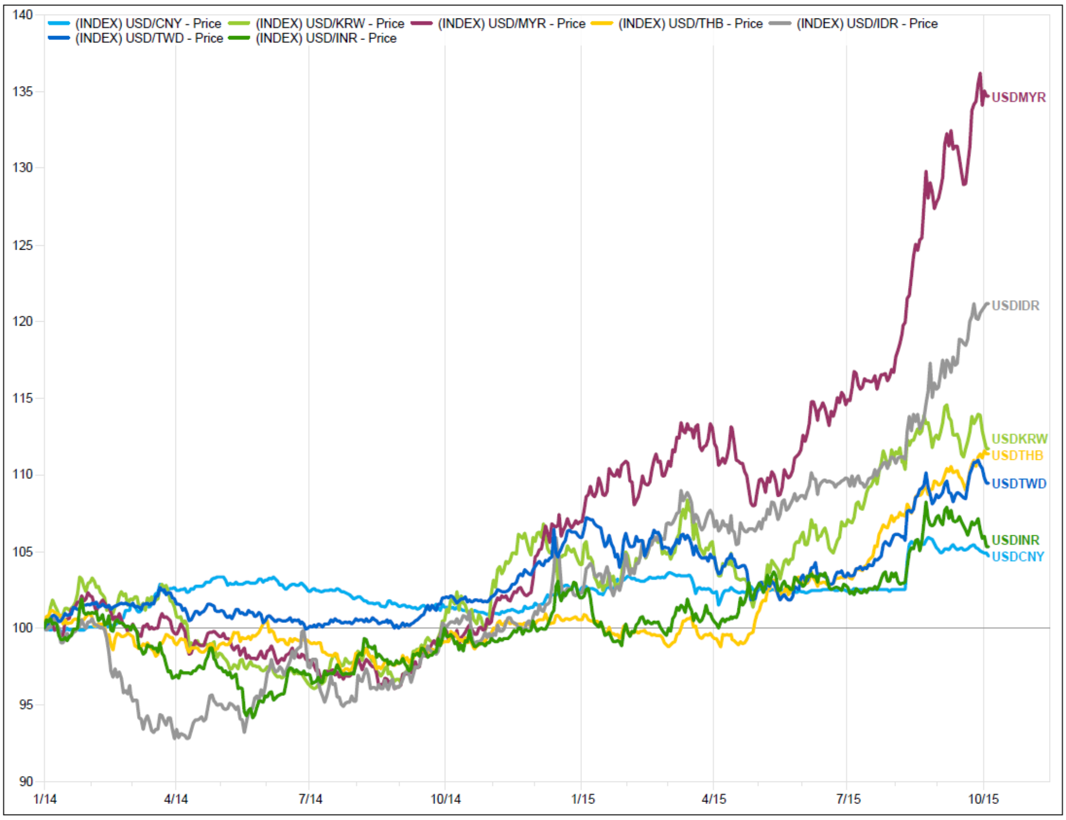
There were a number of factors behind the strength in the market. Some of the more important ones were the desire by the Chinese government to lift asset prices to recapitalise banks and State Owned Enterprises (SOE's). In effect it was a "policy driven" rally, encouraged by the Government who wanted to swap debt for equity. Another factor was a "softer stance" on capital controls, embodied best in the implementation of the Stock Connect programme. Other initiatives aiding sentiment were the expected longer term benefits from SOE reforms and the "One Belt One Road" programme. Lastly, a less attractive property market, the continuing decline In Chinese interest rates, low household ownership of equities (circa 15%) and a "thinly traded" Shanghai "A" share market (retail investors own 60% and account for 80% of trading) all played their part in creating a "market bubble". The catalyst for the market correction was the decision (for the moment) not to include China "A" shares in the MSCI Emerging Markets Index on the 9 June 2015. The negativity was exacerbated by an acceleration in IPO's, elevated insider selling, huge growth in margin debt and forward selling driven by the position of price limits and the somewhat arbitrary suspension of massive numbers of Chinese "A" share stocks.

While precedents for government intervention in equity markets exist (Hong Kong, Japan and arguably "others") they are more frequently confined to debt markets. Nevertheless the Chinese Government used multiple measures to try and "shore up" support for its "A" share markets. These included conventional policies like official interest rate reductions (0.25% in August), RRR cuts (0.50% in August) and reduced transaction costs, but soon expanded to the likes of easing rules on margin calls, the banning of short selling and the temporary suspension of new IPO's. When these policies failed to have the desired impact, direct intervention was used in the form of buying by state owned pension funds and the China Securities Finance Corporation (CSFC).

Whether this support has been successful and at what cost remains to be seen. Then again, the same could be said of the developed world's experiment in QE. Earlier in the quarter there had been some suggestion the Chinese authorities wanted the Shanghai Composite Index to stabilise between 3,400 and 4,500. However with the index level currently at 3,052 it is hard to know what to believe. Nevertheless recent events (and the current index level) suggest that the government has reconciled itself to letting the market establish its own levels. If true this is a sensible outcome. Nevertheless, the current leader Xi Jinping must be under a lot of pressure. Indeed the share market correction, the chemical explosions in Tianjin, the ongoing anti-corruption campaign, the subdued economy and the recent devaluation appear to have some senior party members questioning the wisdom of the reform process. We hope the leadership has the resolve and strength of character to "stay the course".

Perhaps the most important recent event was China's decision to devalue the RMB by lowering its daily mid-point trading range by 1.87% against the US$ on the 11 August 2015 and a further 1.62% a day later. Investors were surprised and shocked and the situation was compounded by limited government communication and clarity. The People's Bank of China (PBOC) now sets its exchange rate in a band of +/- 2%. As CLSA recently stated, this is done "with reference to quotes the PBOC receives from market makers (the major Chinese banks), the supply / demand conditions in the foreign exchange market and moves in other major exchanges range". That stated, it can and has intervened in the market using its substantial foreign exchange reserves as well. Indeed Chinese foreign exchange reserves, the largest in the world, fell a record US$93bn to US$3.5tr in August, as the country sought to stabilize the RMB and its financial markets.

While China's devaluation has sparked fears of a global currency war, its overall movement against the US$ has been modest. This is illustrated by the chart below which compares the performance of the RMB and other Asian currencies against the US$ in recent times



With China's desire to grow consumption as a percentage of GDP and for the RMB to be included in the IMF's Special Drawing Rights (SDR) basket, most of the likely near term devaluation seems likely to have occurred. That stated, a modest continuance of the recent trend seems likely to occur in 2016. A move from a comparatively "rigid peg" towards some sort of trade weighted structure seems probable longer term. For the foreseeable future, currency fluctuations seem likely to have a larger than usual impact on investor returns in Asia.

As was illustrated in the earlier table other Asian currencies have retreated in sympathy with the RMB, as governments in the region seek to maintain their competitive positions in global markets. While most countries in Asia benefit from lower oil and commodity prices, many of those same economies are simultaneously hurt by the fact their GDP's are highly correlated to weak world trade trends. Good examples are Korea and Taiwan. In contrast, other countries in the region like India and the Philippines are relatively immune being geared to domestic consumption.

Unfortunately many Asian countries especially those in weaker financial positions, remain negatively exposed to any tightening in global liquidity. That acknowledged, even if Asian currencies "struggle near term" against a backdrop of American interest rates increases, most look attractive long-term on a purchasing power parity (PPP) basis.

The Big Mac Index (July 2015)

	Raw Index	Adjusted Index
Australia	-18.12%	-22.17%
China	-42.84%	-9.32%
Hong Kong	-48.28%	-41.51%
India	-61.74%	-34.42%
Indonesia	-52.28%	-20.26%
Malaysia	-58.04%	-36.00%
Philippines	-24.73%	+26.89%
Singapore	-28.19%	-29.15%
South Korea	-21.50%	-0.83%
Taiwan	-46.83%	-28.95%
Thailand	-33.86%	+7.82%

Source: The Economist

The index adjusted for GDP per person highlights while Asian currencies still appear cheap, not all do (Philippines, South Korea and Thailand). While the Big Mac index does have shortcomings and limitations it remains a useful guide in looking at currency valuation levels.

Turning to other Asian markets, the Taiwanese market fell 9.1% in A$ terms over the quarter. Given lacklustre world trade and an economy significantly dependent on the export of technology products this was not unexpected. Furthermore the country's demographic profile remains poor and there has been a marked lack of progress on the Cross Strait Service sector deal with China. Adding to uncertainty, Taiwan faces Presidential / Legislative elections in January 2016, which will be contested between the KMT (Ms Hung Hsiu Chu) and the DPP (Mr Tsai Ing Wen). Despite these negative influences, Taiwan has US$425billion of reserves (the third highest in Asia after China and Japan and is running an estimated current account surplus (% GDP) of 11.1% in 2015 (source: JP Morgan). In addition corporate balance sheets are generally very strong and dividend yields attractive.

The Korean market ended the quarter down 3.5% (A$ terms), which was a "relatively" good performance, when compared to other regional markets. This has occurred against a backdrop of persistent cuts in interest rates by the Bank of Korea, as it tries to stimulate domestic demand. Nevertheless the Korean economy is not being helped by feeble global trade which is negatively impacting on Korean exports. A weak Japanese Yen is also increasing competitive pressure on key Korean industries like automotive. Nevertheless, with imports declining more rapidly than exports, Korea continues to run a significant current account surplus. This, coupled with comparative currency stability, a sound fiscal position and the more challenging outlook for other Asian markets, have resulted in foreign institutional buying of the Korean share market. This has occurred despite less than satisfactory levels of corporate governance and very low dividend yields.

Having become a republic following a stormy two year union with Malaysia, Singapore celebrated 50 years of independence on the 9th August 2015. Lee Kwan Yew's great legacy to the Island state was the creation of a hard working, honest and forward thinking government. While his views were frequently authoritarian and controversial, today Singapore's GDP per head at US$58,910 is higher than that of America (US$57,160), Japan (US$39,140), most of Europe (including Germany and the

UK) and even arch rival Hong Kong (US$41,990). Today Singapore's institutions, education, healthcare, entertainment and infrastructure are world class and the city state remains clean and safe. This makes it a nice place to live and the country and its people owe Lee Kuan Yew an enormous debt of gratitude.

While different to that in the West, Singapore has thrived on its own brand of democracy and capitalism. The People's Action Party (PAP), who have governed Singapore for the last 50 years faced a general election last month. The PAP won just under 70% of the popular vote, compared to less than 60% in 2011.

Helping the PAP win the election was the pursuit of populist policies such as the crackdown on foreign workers coming to Singapore, who had started to cause a degree of "social upheaval" in the high cost and increasingly crowded nation. Nevertheless, given Singapore's ageing demographics and declining local labour force, foreign labour flows will remain critical for growth. With weak retail sales, falling tourist numbers and lower property prices the Ministry of Trade and Industry recently reduced Singapore's GDP growth forecast for 2015 to 2.25% from 3.0%. With these near term macroeconomic challenges and its exposure to regional and global trade the Singaporean market fell11.9% in A$ terms over the last three months.

With a stable government and sound economic management, the longer term outlook for Singapore remains positive. These attributes are augmented by high levels of corporate governance, low tax rates and strong protection of intellectual property rights. This last point is important as Singapore's future growth will need to be based on different industries than in the past. Singapore has become a financial hub of global importance and industries involved in banking, insurance, wealth management, venture capital and property (REIT's) will all evolve further in future years. With world class telecommunication services, Singapore is rapidly developing as a centre for internet and technology innovation. Service industries centred on education, healthcare and the environment also appear to have a bright future. The tourism and leisure and the logistics / transportation sector will benefit from regional integration (e.g. Singapore to Kuala Lumpur high speed railway), and Singapore's unique geographic location.

Things are very different to the north, across the Straits of Johor. The public uproar associated with the I Malaysia Development Berhad or IMDB continue, along with calls for Prime Minister Najib Razak to resign. IMDB is a government owned fund, established to promote and fund development in Malaysia, including a number of high profile projects. However, following allegations of corruption against the Prime Minister and some people associated with him, the whole thing has morphed into a political scandal. With Malaysia's economic outlook already suffering from the weak oil price, it is hardly surprising the stock market has been sold down. The Malaysian Ringgit continues to be weak and foreign investors continue to sell stock. However, with government related institutions continuing to support the share market, it still trades on a prospective 2015 P/E ratio of 14x (source: JP Morgan).

In contrasting Singapore and Malaysia, the Waltham Economy Review of Asia review summed up the situation well last year:

> "Singapore practices a meritocratic and corruption-free government model, which spurs efficiency and strong growth; Malaysia runs a government system that provides affirmative action, which contributes to a lack of economic competitiveness, racial polarization and significant brain drain. Given Singapore's lack of natural resources and Malaysia's ample natural resources such as palm oil, rubber, and petroleum, Malaysia has always been in a much better position than Singapore to achieve economic progress and develop sustainably."

How differently things have turned out, but then "Dutch disease" issues are always a potential challenge for resource rich countries.

The Malaysian market had a poor quarter and retreated a further 10.5% (A$ terms).

The Indian market rose 2.1% in A$ terms over the quarter, with many foreign investors overweight the Indian market. While its relatively favourable performance and valuation levels (estimated P/E ratio of 19x) resulted in some profit taking over the last three months, the Indian market remained the best performing regional market over the quarter and in the year to September 2015 (+20.5% in A$).

While still positive, market sentiment has been slightly impacted by the fact that although some progress has been made; the government still has much work to do in effectively recapitalising its beleaguered banking sector. This in turn, is making any early materialisation of an investment led recovery harder to attain (and ultimately sustain).

Yet another consideration not helping India's immediate growth prospects continues to be its very restrictive monetary policy. Nevertheless late in September the RBI cut its benchmark interest rate by 50bp to 6.75% which was larger than expected. The government is targeting a CPI inflation rate of 4% by 2018. Rural growth has also been adversely impacted by the Modi Government's cutback in its minimum support programme for food. This programme and others have historically been inflationary.

Notwithstanding the above comments, we do expect further interest rate cuts combined with further progress in the passing of important legislation (land reform, goods and services tax). Overall, India's economic progress is expected to improve, with GDP growth of 7.6% (source: JP Morgan) forecasted this year and inflation of 5.4% (source: JP Morgan).

With the commodities boom over, Indonesia is experiencing a growth slowdown. GDP growth this year is expected to slow to 4.4% (source: JP Morgan). The fanfare associated with Joko Widodo's election last year has largely dissipated and is increasingly being replaced by concern. While much of this is focussed on Joko Widodo's relationship with Megawati Sukarnoputri (leader PDI-P), and who exactly is running the country, other factors are at play as well.

Joko Widodo has shown a penchant for intervention in the free market (cement / beef) and government policy coordination seems to be lacking in various areas. The country's economic revival is very dependent on implementing a programme to successfully boost infrastructure spending. To date progress has been slow and only some 25% of the country's infrastructure budget of Rs290 trillion for calendar 2015 had been spent by the end of August. This is being substantially funded by last year's reduction in energy subsidies, but other challenges still exist. Lower economic growth is impacting on government tax revenues and issues persist in the area of land clearance enforcement and the desire to reduce corruption. Aside from infrastructure, Indonesia must develop a manufacturing base, as aside from commodities, exports are very modest. Other issues are elevated levels of inflation and the vulnerable currency, which make near term interest rate reductions difficult. Over the September quarter the Indonesian market dropped 17.1% in A$ terms making it the worst performing market in the benchmark index.

The economic environment in the Philippines continues to remain robust, with GDP growth expected to be 5.7% in 2015 and CPI inflation 1.8 % (source: CLSA). With continued robust economic performance the market in the Philippines was only down 1.9% in the quarter. Cash remittances from Overseas Filipino Workers (OFW) increased 5.8% to US$24.3bn in calendar 2014. These remittances are an important driver of consumption in the Philippines and amounted to approximately 8.5% of GDP last year. In addition the IT – business process outsourcing industry grew its revenue to around US$18.4bn last year and employed just over 1m people. The industry is aiming for revenue of US$25bn and to employ 1.3m people by 2016. While the investment cycle in the Philippines has picked up it would be fair to say it has "lagged expectations". Clearly this will remain a focus area for whoever wins the Presidential election due to be held in May 2016. Among the leading candidates are Jejomar Binay, Grace Poe and Mar Roxas.

SEPTEMBER 2015

With political turmoil caused by the Military coup in May 2014, Thailand's economic performance has been very disappointing in recent years. The situation has been compounded by weak consumer demand and household debt to GDP levels which peaked at around 80% in 2014, although a deleveraging process has started. Declining agricultural commodity prices (rice and rubber) have also negatively impacted on the rural economy. Government investment in infrastructure has also been lacking and it is important the proposed planned Bt1.3tr programme over the next eight years gathers some momentum. Compounding the situation has been subdued private sector investment and weak exports. Despite being well endowed in agricultural commodities, manufacturing still accounts for around 90% of Thailand's exports by value. Indeed with exports approaching 10% of Thailand's GDP the country has been impacted by the slowdown in world and regional trade (China) in areas like electrical and automotive products. The Thai market ended the quarter down 9.8% in A$ terms.

The Portfolio

The fall in Asian markets over the September quarter enabled us to selectively invest in a number of stocks. This reduced our cash weighting to just under 8% at the end of the quarter. Having bought two new stocks and sold two existing positions, the Portfolio continues to own 48 investments. Portfolio turnover continues to remain modest.

The first new investment made was in the Chinese healthcare market. China currently spends around RMB1.96trillion on healthcare. Some 76% of this was spent in hospitals and the balance on pharmaceuticals and equipment. Global research and consulting organisation Frost and Sullivan expect spending on healthcare services to grow at a CAGR of 16% 2012-17. This is being driven by rising affluence, an ageing population and increasing chronic disease, while an increasing number of healthcare facilities and rising insurance companies are also positives.

The Portfolio has invested in a company which gives it broad exposure to the healthcare thematic in China. Indeed, it is among the top six Chinese pharmaceutical companies and has large exposure to pharmaceutical and healthcare products distribution in China. Furthermore, it has a growing presence in medical diagnostics and devices amongst its other businesses in China. The company is conservatively financed, significantly owned by its founding shareholders and we believe has excellent growth potential.

The other new stock added to the portfolio is one of the largest automotive aftermarket component manufacturers in the South-East Asian region. When we invest in automotive related companies, we try to focus on those with recurring turnovers or those manufacturing technology related components. This family controlled company which exports to over 100 countries worldwide and sources 90% of its revenue from the aftermarket meets our criteria for recurring revenue. Furthermore, it has partnership agreements with many industry leading players. The size of its global market is around US$50billion and the industry has several long term growth drivers. Among these are increasing content, environmental and health considerations, emission regulations and fuel efficiency. This company in question sources 60% of its sales from its own brand and 40% from OEM / private labels. In contrast, 30% of its sales are made in its home market and 70% exported, making it a global player. The Company has low levels of debt, an excellent track record and sound growth prospects.

Earlier in 2015 CRH, the large Irish building materials company announced that it had agreed to acquire certain assets from Lafarge SA and Holcim for a total enterprise value of Euro 6.5bn. The last part of the transaction to complete was in the Philippines. This settled in in September 2015 and stemmed from CRH and partners acquiring the minority interests, of which the ATF was one, in Lafarge Republic.

The only other investment the fund sold during the September quarter was an Indian manufacturing company. We felt the valuation criteria associated with this company made any further rerating very unlikely. Furthermore, management had reduced earnings guidance earlier in the year and the industry remains very competitive. In short, we felt better investment opportunities existed elsewhere.

From a geographic perspective, the ATF's largest exposure is in China/Hong Kong, where the portfolio has a weighting of 39.7%. This compares to an index weight of 40.6%. Elsewhere, the portfolio remains overweight in ASEAN (23.7% versus a benchmark of 16.8%) and India (16.1% versus a benchmark of 10%). Conversely, the ATF's exposure of 5.8% and 5.2% respectively in Korea and Taiwan means it remains materially underweight in both these markets. By industry the portfolio's largest exposures are in financials (25.3%), industrials (24.1%) and consumer discretionary (15.2%). Those sectors in which the portfolio has no or limited exposure, have not changed over the quarter. The exception to this is healthcare, where the portfolio now has a weighting of 5.5% compared to a benchmark of 2.5%

International Visits – Observations and Comments: Taiwan

We visited Taiwan in August. The Portfolio remains very underweight in Taiwan, which represents 15.0% of our Benchmark.

Taiwan's GDP per head amounted to US$22,700 in 2015 (source Economist) making it one of the more developed Asian countries. Taiwan's success historically has come about from manufacturing. Indeed the technology sector amounts to 60% of Taiwan's market cap, including the internet.

The bulk of Taiwan's exports are to developed countries, with a focus on the technology sector but weak IT device demand, especially the maturing smartphone market along with the slowdown of the global economy are the challenges it faces.

The domestic consumption outlook is also challenging as Taiwan is a fast ageing society with a modest population of 23 million. Taiwan's fertility rate is the lowest in Asia at 1.1, followed by Korea and Japan. In addition, Taiwan has been losing young working class to China, in search of better opportunities. As such, 5% of the country's total population now lives in China, causing a 'brain drain'. A CFO of a major services company summed up Taiwan's predicament as follows "the population of Taiwan is not growing, wages are not growing, and therefore the domestic economy is not growing."

Indeed Taiwan's 2015 GDP forecast was downgraded by the Directorate-General of Budget, Accounting and Statistics from 3.28% to 1.56% during our trip, while the Central Bank recently reduced its policy rate from 1.875% to 1.75%. This was the first cut since 2009 and occurred because of challenging domestic and global conditions.

Despite China being its biggest trading partner (combined HK/China share amounted to 40% of 2014 exports), Taiwanese regard themselves as fiercely independent ("we are Taiwanese, not Chinese" was a refrain we heard frequently). The prospects of much closer Cross-Straits relations (which could potentially open up Taiwan's services industry) thus seem "challenging".

Following our trip, we added modestly to the Portfolio's existing holdings in Taiwan, whose share prices were "caught up" in the August share market rout. Our holdings benefit from ageing trends and/or have exposure to China. These companies have cash on balance sheet, relatively defensive earnings and pay generous dividends (5% yields).

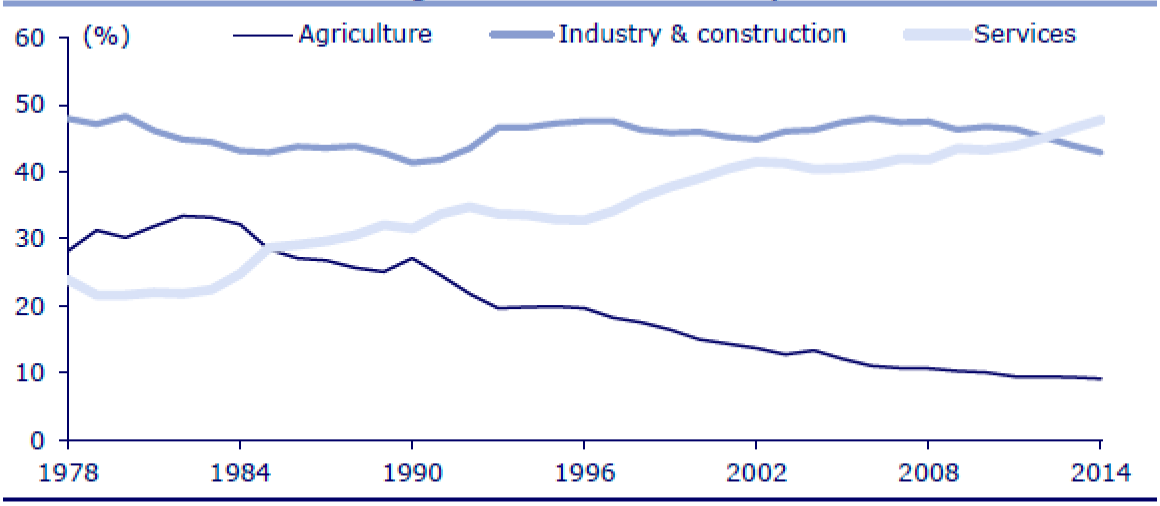
In addition to existing holdings, we visited companies that are not affected by or even beneficiaries of the above trends (e.g. modern retail, internet, services). Another area of interest is industrial companies operating in China (automation, industrial PC, payments, where Taiwanese companies are market leaders). We maintain a close watching brief over a number of companies, awaiting more (relatively) compelling valuations / entry prices.

SEPTEMBER 2015

Market Outlook

Sentiment towards all emerging markets and especially those in Asia will continue to be significantly influenced by events emanating from China and the Federal Reserve. While it is easy to be negative about China and its markets may fall further, it is important to acknowledge the Chinese government appears to be focused on change. Trying to stimulate the economy with ever increasing amounts of debt no longer works and China now has a debt to GDP ratio of 282% compared to just 158% in 2007 (source: McKinsey). While this is not appreciably different to many Western nations (Australia, USA, Germany) and China has a large asset base, leverage has risen a lot in recent years. Nevertheless the reform process has started and there has been much commentary of reform within SOE's, the One Belt One Road initiative, Internet+ and Made in China 2025. While the recentralisation of power by Xi Jinping and the ongoing anti corruption campaign are commonly recognised there have been other initiatives. These include new budget laws capping local government debt to 100% of revenues and moving the same entities to more appropriate sources of funding like municipal bonds. These factors (and others) have already slowed credit expansion and shadow financing activities. Another very important factor is the changing composition of the Chinese economy and most particularly the evolving role of the service sector. This is highlighted below by CLSA who estimate the service sector should account for over 50% of the Chinese economy by the end of 2015.

Services have become the largest sector of the economy since 2012



Source: CEIC, CLSA

While the price of reform in China will be slower growth, it should be of better quality. However the transition will not occur "overnight". That acknowledged, it will also be of a different nature, with services rather than manufacturing being the focus. In this environment the education, healthcare, financial services, transportation/logistics, tourism/leisure, pollution control and the internet/technology industries will be the primary growth drivers of the economy as it becomes more consumption orientated. We feel these areas of the market have particular appeal from a thematic standpoint.

In the current environment it is also very important to look at fundamentals. While valuations on the Shanghai Shenzhen CSI 300 index continue to look high (circa 19x according to CLSA and higher again if adjusted for the bank sector) the same is not true of the MSCI China (H shares/B shares/Red chips/P chips) and the Hang Seng China Enterprises index or HSCEI (see charts below). Remember the current discount of H shares to A shares is around 26.5% and the HSCEI tracks the performance of Chinese companies listed in Hong Kong in the form of H shares. The ATF only invests in H shares in Hong Kong and Chinese listed ADR'S in America. Furthermore, the portfolio currently has no listed H share bank or property exposure. In conclusion, while we are still underweight the Hong Kong/Chinese market, we have used the current period of weakness to add to our existing position.

Source: Datastream CLSA

Portfolio Characteristics

	Portfolio	Benchmark	Variance
Number of Stocks	48	610	562
Beta	0.85	1.0	-0.15
P/E (X)	13.7	11.0	2.7
Yield (%)	2.6	3.1	-0.5
P/B (X)	2.4	1.5	0.9
Historical EPSg(%)	13.9	11.5	2.4
Forecast EPSg(%)	10.8	6.3	4.4
Return on equity (%)	17.3	13.3	4.1
Dividend Cover (x)	2.8	2.9	-0.1
Net Debt/Equity (%)	-4	26	-30