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.

SEPTEMBER 2016

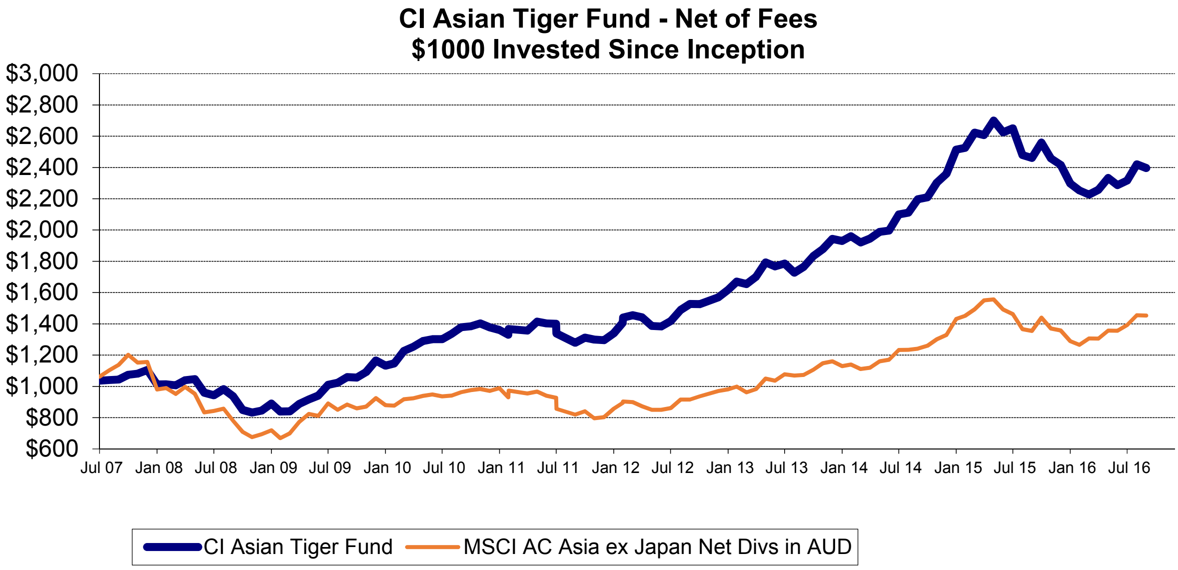
I suppose leadership at one time meant muscles; but today it means getting along with people… Mahatma Gandhi

No one saves us but ourselves. No one can and no one may. We ourselves must walk the path… Buddha

The people are the most important element in a nation; the spirits of the land and grain are the next; the sovereign is the least... Mencius

	****PORTFOLIO**	**#BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTH	5.17%	7.17%	-2.00%
ROLLING 1 YEAR	-1.45%	7.22%	-8.67%
ROLLING 2 YEAR	5.92%	8.18%	-2.26%
ROLLING 3 YEAR	12.36%	10.62%	1.74%
ROLLING 5 YEAR	14.97%	12.12%	2.85%
ROLLING 7 YEAR	14.72%	7.35%	7.37%
SINCE INCEPTION*	11.78%	4.12%	7.66%
SINCE INCEPTION^	180.14%	45.26%	134.88%

*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

MSCI Data with net dividends	Sep Qtr 2016 in A$ terms	Sep Qtr 2016 in local currency terms	12 month to Sep 2016 in A$ terms	12 month to Sep 2016 in local currency terms
AC World	2.5%	5.1%	2.7%	10.8%
AC Asia ex JP	7.2%	8.8%	7.2%	13.7%
China	10.8%	13.9%	3.7%	13.0%
Hong Kong	8.9%	11.9%	9.3%	19.2%
India	3.1%	4.5%	-2.6%	7.7%
Indonesia	6.6%	8.2%	40.6%	36.5%
Korea	8.0%	6.1%	11.5%	12.9%
Malaysia	-4.2%	1.0%	3.9%	6.5%
Philippines	-7.9%	-2.4%	-2.2%	10.6%
Singapore	-2.8%	1.1%	0.7%	5.3%
Taiwan	8.7%	8.5%	12.6%	16.8%
Thailand	4.3%	5.7%	11.0%	15.4%

September saw a second strong consecutive quarter for Asian markets, with MSCI Asia ex Japan rising by 8.8% and 7.2% in local currency and AUD terms respectively. On a 12 month basis, the Index is higher by 13.7% and 7.2% in local currency and AUD terms respectively.

MSCI EM, of which Asia represents 71%, rose by 6.1% for the quarter and YTD has risen 10.3% in AUD terms, outperforming global equity markets by 3.6% and 9.0% respectively. Crude oil was stable during the quarter at USD 48.1/bbl, substantially higher than the lows seen earlier this year.

China/Hong Kong

MSCI China and Hong Kong were the strongest performers in the quarter.

The stabilisation of the “old economy” in China has largely been driven by non-private infrastructure and residential property construction. On the other hand, private sector investment, despite improving private sector profits, has been decelerating this year. It remains to be seen how long the property recovery continues given rising tightening risks, and whether the private sector can pick up the slack.

“Rebalancing” of the economy continues with services accounting for 54% of GDP in H1. Consumption indicators such as passenger vehicle sales, retail sales and air passenger traffic continue to grow steadily at double digits percentage terms.

Hong Kong was a beneficiary of the search for “safe yield” post Brexit. Mainland investors have participated in this, as seen by Southbound flows ex China rising to 5% of the HK Exchange’s turnover, with a desire to hedge against RMB depreciation also a factor.

The Shenzhen-Hong Kong Connect was approved during the quarter and is expected to be launched later this year. Buying sentiment in Hong Kong was also aided by the Chinese insurance regulator granting direct access to mainland insurers to the Shanghai-Hong Kong Stock Connect.

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A closed capital account is a pre-requisite of China's foreign exchange and interest rate policy which explains the Chinese government's support of such Southbound flows as orders are executed by Chinese domestic securities' firms. Meanwhile, capital flows out of China continue to be negative, albeit at much lower levels than 2015. It is not surprising that the RMB has depreciated by 2.8% in 2016 against the USD, and 5.1% against a trade weighted basket of currencies.

Notwithstanding the sharp move in markets this year valuations in Hong Kong and China appear inexpensive. MSCI HK trades on 1.1x 2017 PB and 15.6x 2017 PE, MSCI China 1.1x 2017 PB and 8.9x 2017 PE, according to CLSA estimates.

India

In comparison to China, MSCI India rose by 3.1% in AUD terms for the quarter, or down 2.6% on a 12 month basis. It seems natural that the Indian market has taken a breather given its strong performance on a longer-term basis.

The policy highlight of the quarter was the passage of the GST bill in both Indian houses of Parliament. Whilst additional work, including deciding the tax rate, is required to achieve implementation by 1 April 2017, its introduction would represent a significant overhaul of India's complicated state tax system and could have positive implications for the consumer goods, logistics and building materials sectors, amongst others.

Deputy Governor Dr. Urjit Patel was appointed as the new Governor of the Reserve Bank of India (RBI). His appointment, which was arguably a surprise to market commentators, suggests that Prime Minister Modi is more of an inflation hawk than commonly supposed. On the economic front, Q1 GDP of 7.1% was reported, however as mentioned in the past, this number feels "high" compared to on the ground activity. Industrial Production (IP) figures for example paint a less buoyant picture with August IP +2% YOY. Due to lower inflation, the RBI chaired by the new Governor cut interest rates by 25bps taking the repo rate to 6.25%.

The RBI also proposed amendments making it easier to restructure bad debts. These developments would be helpful for the investment cycle, which to date has been weak due to legacy bad bank loans, low capacity utilisation and an over-supplied property sector. India has continued to see equity and bond inflows which is supportive of the INR. During the quarter ICICI Prudential Life Insurance undertook a Rps 60b IPO, the country's largest since 2010.

Korea and Taiwan

MSCI Korea and MSCI Taiwan rose by 6.1% and 8.5% respectively for the quarter in local currency, and 8.0% and 8.7% respectively in AUD terms. On a 12 month basis, Taiwan is the second strongest market in Asia and Korea the third strongest in AUD terms. The strong performance of both markets has been in large part due to their respective technology sectors.

On the economic front, the Bank of Korea cut its 2016 GDP growth forecast to 2.7%, whilst projecting a pick up to 2.9% in 2017. Amongst its major industries, only technology seems to be performing well. Samsung Electronics ended the quarter 12% higher in local currency terms, with the market seemingly more positive about rising semiconductor prices and prospects for the company's new display panels, than concerned with potential problems with its Galaxy Note 7 battery. US activist hedge fund Elliot's letter to the board of directors continues the theme of better corporate governance, transparency and capital management for this admittedly lowly priced market.

Taiwan is a leading semiconductor supplier and also an important part of the Apple supply chain. The industry has benefitted from rising semiconductor content requirements in new applications (e.g. automotive, factory automation) as well as the requirement for increased functionality, greater processing and higher power requirements more generally in many devices. The industry seems to have navigated shortening product life cycles and muted end customer demand well.

Indonesia

MSCI Indonesia rose by 8.2% and 6.6% in local currency and AUD terms for the September quarter, taking its 12 month performance to 36.5% and 40.6% respectively. Indonesia was the strongest performing market in Asia over the 12 month period, with the IDR the only currency to have appreciated against the AUD.

President Jokowi undertook a fairly extensive cabinet reshuffle, with investors most enthused about the re-appointment to Finance Minister of well-respected former World Bank Managing Director Sri Mulyani. Having been in the role for two years, the President appears to have consolidated political support, including managing the coalition which supports his administration.

The Indonesian economy is reliant on coal and palm oil exports, and consumer and private investment indicators are only modestly recovering. Public investment spending, on the otherhand has been strong, Q2 +12% YOY, with the government planning to increase its FY17 budget by a third. With falling inflation and a better trade balance with 8 consecutive months of surpluses, the Central Bank cut its policy rate by a further 25bps this quarter to 5%.

Against the favourable backdrop of fund flows, the Rupiah appreciated by c6% against the USD. Arguably, markets have moved ahead of the economy, although valuations appear fair rather than expensive at this juncture.

Thailand

MSCI Thailand closed the quarter 5.7% higher in local currency and 4.3% in AUD terms. On a 12 month basis, MSCI Thailand has returned 15.4% and 11.0% respectively, being the fourth strongest market in Asia.

Thailand's constitutional reform referendum was held in August without incident. With 59% turnout, 61% approved the constitution while 58% were in favour of the appointment by the Senate of the Prime Minister. A national poll conducted later in the month found that 61% supported General Prayut Chan-o-cha as Prime Minister in next year's general election. Hopefully this is a precursor towards greater political stability. On the economic front, Q2 GDP rose at a better than expected 3.5% YOY helped by fiscal policy support and tourism, however private consumption, investment and exports still remain soft.

Singapore and Malaysia

The performance for Singapore and Malaysia markets in comparison were much more subdued.

The Malaysian economy is largely being supported by government spending and interest rate cuts (25bps in July to 3%, with more possible). GDP growth slowed to 4% YOY in Q2, with private consumption much weaker. On the political front, additional news flow relating to the allegations of misappropriation of funds at the government owned 1Malaysia Development Berhad continues to be an overhang.

On the other side of the Johor Straits, underlying economic conditions remains modest at best in Singapore. GDP rose by just 2.2% YOY in Q2 as the country deleverages. The number of business closures this year is high compared to past recessions and unsurprisingly private sector sentiment is weak. The environment has been challenging however valuations in Singapore are inexpensive, at 1.1x 2017 PB and 13.4x 2017 PE, according to CLSA, with the SGD loosely pegged against the USD.

Philippines
MSCI Philippines was the only market to decline in local currency terms during the quarter with Peso depreciation of 3% against the USD and 5% against the AUD, accentuating this. Like India, Philippines has been one of the strongest markets in Asia taking a longer-term basis.

President Duterte's new administration appears pro-business and the economy is arguably the strongest in Asia. Q2 GDP of 7% YOY was reported, domestic conditions are strong as evidenced by loan growth +18% YOY, the capex cycle is healthy with fixed asset investment +27% YOY, whilst inflation remains benign 1.9%. The bigger influence, which led to selling appears to have been the President's controversial stance and rhetoric on human rights and foreign policy.

THE PORTFOLIO

The portfolio remains positioned around six subsets of value:

- **Stalwarts** (strong and sturdy companies with best in class privileged market and competitive positions) 49% (e.g. Bank Rakyat Indonesia, China Mengniu)
- **Bond-like equities** (companies with secure, low volatility income/dividend streams that can be grown to recapture inflationary effects over time) 4% (e.g. Singapore Exchange)
- **Growth companies** (growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management) 16% (e.g. IndusInd Bank, Tencent)
- **Asset plays** (stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value) 4% (e.g. Jardine Strategic)
- **Low risk turnarounds** (sound businesses with good management in place and good balance sheets essential) 2%
- **Cyclicals** (stocks showing both upside and downside leverage to the cycle with experienced and contrarian managers who can allocate capital prudently) 16% (e.g. Holcim Philippines)

During the quarter, we made a modest number of portfolio changes:

- We exited our holding in an Indian listed print media company. While the investment has served us credibly over our holding period, the stock price had increased to above "fair value" more recently. We continue to follow the stock, especially its progress in digital.
- We initiated a position in Naver, which has a large share of Korean online advertising. Rising usage of mobile, e-commerce and video products should result in an acceleration of earnings growth. Naver is also the majority shareholder in LINE, the leading "messaging" platform in Japan, Taiwan and Thailand, which are at an earlier stage of development. Scale and the network effect are formidable competitive advantages for both. Local management is regarded as "best in class' with a history of turning out successful alumni.
- We initiated a position in the Singapore Stock Exchange (SGX), a natural monopoly in cash equities, a leading derivatives exchange in Asia as well as key part of Singapore's aim to become a key global finance centre. It enjoys strong support from Singapore Inc. with Temasek a 23% shareholder. SGX is positioning itself as the leading multi-asset exchange and gateway to Asian financial markets and over the long-term we see a number of very exciting initiatives including a broadening of its derivatives offering and further integration with ASEAN and Greater China capital markets.

The Asian Tiger Fund returned 5.17% in AUD terms, against the Benchmark return of 7.17%, which represented underperformance of 2.0% in the September quarter.

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Due to its defensive nature, the portfolio tends to lag in sharply rising markets. Specific factors influencing the portfolio's performance during the quarter were:

1. The portfolio holds approximately 9% in cash, which had a negative impact on relative performance.

2. The portfolio's overweight India, Philippines and Singapore positions coupled with an underweight Taiwan position detracted from a country allocation perspective. The portfolio is more favourably disposed toward ASEAN and India, which have better demographics, are domestically orientated and coming from a "low base" compared to North Asia.

3. Top 3 contributors were:
   - Shenzhou International (China) – reported an excellent set of results, reflecting the successful start- up of its Vietnam operations, and automation related operating efficiencies.
   - Shanghai Fosun (China) – reported a solid set of numbers. Healthcare has good long-term prospects and benefits from high entry barriers.
   - Media advertising company (China) – underlying results were solid as the company was able to navigate a changing advertiser landscape (e.g. rise of e-commerce vs. food and beverage companies) whilst managing costs and capex.

4. Bottom 3 contributors were:
   - BDO Unibank (Philippines) – announced a long awaited PHP 60b capital raising, which will enable the bank to sustain high loan growth and capture additional regional and infrastructure related lending opportunities.
   - Logistics company (India) – results were negatively impacted by weak trade volumes. Prospects should improve with the commencement of new facilities.
   - Kepco Plant Service (Korea) – no specific news, albeit 2016 earnings are likely to be negatively impacted by higher start-up costs in anticipation of a new contract and a temporary outage at an existing site.

HONG KONG AND CHINA TRIP OBSERVATIONS

Approximately 40% of the portfolio is invested in HK/China. We are interested in companies with exposure to ageing, digitisation, consumption and lifestyle upgrade, environmental and efficiency, high value exports and brands, financial inclusion and security or asset scarcity themes. We met a mixture of portfolio and non-portfolio companies recently, and our observations are as follows:

- Conditions remain challenging for many consumer companies reflecting changing behaviours. Saturation is evident in a number of basic products.
- The better companies have been able to tap into health & wellness and premiumisation trends.
- It remains to be seen how successful other established players will be in making this transition. 80-90% of traditional food and beverage markets are "low end and copycat" in nature which makes this task challenging.
- Despite the advent of e-commerce, good distribution can be a source of competitive advantage, which favours those with broad and wide networks.
- Social advertising plays a large part in branding, which is good for Internet companies.
- Given the sales environment, capex spending intentions were lower for virtually all of the companies whom we visited. A number of companies have also scaled back their work forces and restructured employee wages.
- Infrastructure (transport and utilities) and healthcare (hospital beds) appear to be exceptions to the capex restraint theme.

- Infrastructure rollout is occurring within the context of urban planning and arguably widens the gap between tier 1-2 cities and the rest.
- Pricing pressure seems to be coming to an end in the pharmaceutical sector. Tendering reform as well as higher clinical research requirements could result in further industry consolidation.
- Industry consolidation in other sectors (paper, tissue, textiles and glass) is being driven by a mix of economics and tighter regulations.
- Companies are being offered incentives for switching energy sources (say from coal to gas), installing waste/water treatment facilities and energy saving machines, amongst others.
- Internet, healthcare, human resources and education are growing industries. Internet appears to be the most consolidated, education the least.
- The external environment is still tough. Even within Asia, which is the fastest growing region globally, trade volumes are growing at less than 2%, with ASEAN and India much faster than North Asia.

Notable quotes:

- "Finding the right CEO is key. They do not need to be a local Chinese, but they need to have a lot of local experience and market knowledge. The management team is very important. Building a bridge between the foreign major shareholder and the local company is very important"- Executive chairman's response to: What are the key attributes of successful multi-national company subsidiaries operating in China?
- "We are part of the national team" - SOE company's response to: Why will you be successful in securing overseas contracts?
- "China's landscape is always evolving. So you need to constantly review and respond. Sometimes, you really have no idea what is happening" (comment by a leading snack food company and echoed by an apparel retailer).
- "In China it is not all about the product, otherwise multi-national companies would have the clear upper hand. Marketing, distribution and the ability to introduce new brands and products are also important attributes" (comment from a leading consumer analyst).

Consumer products

Vitasoy seems to have successfully tapped into consumers' desire for low sugar, low cholesterol products through modifying traditional products as well as from product extensions (e.g. black sesame and biscuit drinks). Vitasoy is adopting a premium strategy, and is the dominant brand within its chosen categories and focussed geographies.

While China Mengniu (CM) has a much wider product portfolio, it also enjoys an extensive national distribution network. CM is focussed on introducing more premium products (e.g. chilled yogurt drinks) whilst at the same time modifying its basic products (e.g. fruit based milk beverages) and increasing penetration of the latter. Peer comparisons suggest CM can do a better job on procurement and inventory management. We wish the new CEO Mr. Lu, who has had a long employment history with major shareholder Danone, well.

Within Vinda's core tissue segment (70% of revenues), opportunities exist from premiumisation (e.g. kitchen towels) and developing the B2B channel in China, whilst ASEAN provides a large new addressable market for the company's high quality, mid- price offering. Given penetration levels, the market in China should grow at 5-7% for the next 10-20 years. Vinda is introducing SCA's personal care brands to China, which over time could offer localisation opportunities. Branding is important in both tissues and personal care products, as this helps build scale which is a competitive advantage.

Advertising and Internet

The last 2 years have been difficult for traditional media as companies are not investing in above the line advertising. Due to price competition, consumer companies are doing more below the line and with promotions.

Internet companies in China still have to improve their advertising targeting technology vs. global peers. For an advertiser this means lower Return on Investment, but offset by lower costs (CPM – click per thousand impressions, CPC – cost per click) in China.

Online gaming revenues should grow at >20% YOY in China however leading companies are growing substantially above this. Scale, technology and customer analytics (which are interlinked) are competitive advantages, and this is why the industry has consolidated to a duopoly between Tencent and Netease. Smartphone gamers tend to be less 'hard core' (i.e. less loyal, spend less), therefore product design / extension (particularly from an established PC game), building a community (which encourages player longevity) and introducing new formats (e.g. card, music, navigation) are key.

Human resources

20% of university graduates are still unemployed after a year. The number of job seekers overall is rising by 11% YOY, reflecting high frequency turnover by younger employees.

Just 5% of Chinese SMEs are online, and of those, just 12% use online classified websites to hire which suggests tremendous long-term potential. Online classified pricing in China is likely to remain very low, as the focus is on customer acquisition. Both Zhaopin and 51job have been able to introduce more innovative or additional services and products for upselling.

Exchanges – HKEx, Shenzhen Stock Exchange

- Excess capital in China needs to migrate abroad which supports a "huge" transformation in HKEx's equity, commodities, fixed income and currency trading over the next 10 years.
- When Shanghai-HK Stock Connect began in 2014, Northbound flows were 5-6x Southbound; YTD the flows in both directions are more balanced, with large caps, high dividend, and H share companies gaining favour.
- Primary offerings and ETFs will take on new bigger roles through Connect, providing domestic mainland Chinese investors more investment opportunities.
- Shenzhen Stock Exchange is a form of "a less powerful government". It hosts high tech, fin tech and venerable Chinese brands. The Shenzhen market accounts for 46% of A-share market cap and about 60% of mainland listed companies.
- Shenzhen's daily North and Southbound quotas have been set in line with those of Shanghai (RMB 13b / 10.5b respectively). Aggregate quotas have been abolished.

ASEAN TRIP OBSERVATIONS

Approximately 24% of the portfolio is invested in the ASEAN region, through stocks listed in Indonesia, Philippines, Malaysia, Singapore and Thailand. Our holdings are in the financial, material, healthcare and utility sectors. The following are our observations from a recent trip to the region:

- The high-quality companies trade at high multiples.
- Given low interest rates, more companies are taking on debt. Some of the capital raised will surely be put to good use, some however has been allocated to activities that are more questionable (e.g. CP ALL's acquisition of Siam Makro). Demand and supply imbalance will also inevitably be a consequence.

- Infrastructure spending / fiscal stimulus is a common theme across the region, particularly in Thailand, Indonesia, and the Philippines.

Thailand
Despite the relatively slower economic growth (compared to say the Philippines or Indonesia), several companies managed to report good results and sounded optimistic. The retailers, for instance, reported positive same store sales growth, although this was due partly to government stimulus measures. Improving political stability under the military government has helped.

CLMV (Cambodia, Laos, Myanmar and Vietnam) – Despite all the talks about ASEAN Economic Community, real integration is already happening in mainland ASEAN. Several companies we met are expanding their operations near the borders with the neighbouring countries (e.g. about 5% of Bangkok Dusit Medical Services' revenue is attributable to patients from CLMV and this contribution is expected to increase significantly going forward). Several notable groups or tycoons such as the Central Group and Khun Charoen (owner of Thai Beverages) have made acquisitions in CLMV.

Tourism – Thailand has several advantages (land of smiles, natural attractions, great food, relatively good infrastructure and world-class medical facilities). It is one of the top destinations in Asia for Chinese tourists and for medical tourism. Several companies we met during the trip appear well-placed to take advantage of this long-term growth opportunity.

Philippines
New government – The new government appears to be business friendly (e.g. cutting red tape, de-bottlenecking PPP/bid processes, REIT law review, reduction of corporate income tax rate from 30% to 25% and relaxing foreign ownership restrictions) and it is aiming for more inclusive growth (reducing crime rates, promoting rural development and infrastructure spending will focus on areas outside Metro Manila). Some policies, however, might hurt certain industries or incumbent operators (e.g. anti-smoking laws, alcohol sale restrictions, and junk food tax).

Infrastructure spending – The new government plans to increase infrastructure spending to over 5% of GDP (from under 3% in 2015), with the target eventually rising to 7% of GDP.

Indonesia
Sentiment improving – Following a period of low economic growth over the past couple of years, sentiment on the ground appears to be improving. The consumer companies reported strong sales growth, although, a large part of it was due to a boost from spending for the Lebaran festive season, which occurred in the beginning of July this year.

Overcapacity and more competition – The cement sector is one example where the combination of capacity expansion by the incumbents, entry of new players, and slowing economy has resulted in excess capacity (the utilisation rate for the whole industry is expected at around 67%). Indocement's sales fell by 13% in the first-half period. Other industries including certain areas of the consumer sector have also seen the incumbents losing market share and retailers rationalising their store networks following rapid expansion during the boom years.

Infrastructure spending – With the private sector still holding back in investing, infrastructure spending will be key. The key risk, however, will be tax shortfall with the government relying to a large degree on the success of the tax amnesty program (about 1% of GDP) to contain its fiscal deficit at 2.5% of GDP (3.0% is the constitutional limit).

Healthcare – The introduction of the national health insurance scheme in 2014 served as the catalyst for the growth of the healthcare sector in Indonesia. That said, there have been negative impact for some of the pharmaceutical companies given the shift in volume mix towards the lower-margin unbranded generic drugs. Some private hospitals have also experienced temporary disruption in traffic initially; however, given the lower quality of treatment in the public hospitals and the long queues, the private hospitals should be a beneficiary over the long term.

Malaysia

Negative consumer sentiment – The confluence of the removal of government subsidies, the introduction of GST, hikes in toll rates, the weakening RM, and endless political scandals has resulted in negative consumer sentiment. Although consumption will eventually recover over the near term and the country has some natural advantages (e.g. Malaysia is one of the world's largest producers of rubber gloves and palm oil), the country appears to be at risk of being stuck in middle-income trap.

Financials

The mood in our meetings was decidedly more positive than last year, with the exception of Malaysia where the political situation is toxic and clearly impacting business confidence.

While there are pockets of stress in oil & gas (O&G) services and the SME sector, and indeed we have seen a pickup in non-performing loans and credit costs, we do not see systemic risks emerging. Corporate debt levels in ASEAN are still broadly low and ASEAN banks are structurally very profitable which allows underlying profits to absorb higher credit costs. In Indonesia and Thailand, where the credit cycle is relatively more progressed (i.e. credit costs have or are close to peaking), growth in bank earnings appears poised to recover in the medium term.

We noted last year that infrastructure investment was expected to drive economic and credit growth but it was frustrating slow. This appears to be finally gaining traction.

Digital banking and financial technology (or fintech) remain active talking points amongst bank executives. Fintech is a much hyped area of finance (some of this is misplaced in our view) and how it evolves is difficult to grasp. Our current belief is that large financial institutions have the resources and know-how (ie. they have a big head start) to withstand the challenges posed by new entrants. In this regard we were happy to see the healthy paranoia displayed by ASEAN banks – many have committed significant investments to improve core banking systems and digital banking offerings. Some are also pursuing venture capital-type investments in the fintech arena.

PORTFOLIO CHARACTERISTICS

	Portfolio	Benchmark	Variance
Number of stocks	51	622	-571
Beta	0.9	1.0	-0.1
P/E (x)	15.9	13.2	2.7
Yield (%)	2.1	2.6	-0.5
P/B (x)	2.2	1.4	0.8
Historical EPSg (%)	8.8	7.6	1.2
Forecast EPSg (%)	10.2	7.8	2.4
Return on Equity (%)	14.0	10.9	3.1
Dividend Cover (x)	2.9	2.9	0
Net Debt/Equity (%)	-3	23	-26

Source: UBS PAS

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MARKET OUTLOOK

Markets appear to have taken Brexit as well as ever increasing unorthodox monetary policies in their stride. It is difficult to accurately predict what, when or if anything causes this view to change. Stresses and fault-lines appear to be building and confidence in global politicians and central bankers appears to be diminishing.

The investment case for Asia is centred on a large geographically diverse growing middle class, improving governance and institutional frameworks and a transition away from being a low end export-orientated manufacturing hub towards a large domestic consumption market. Based on UBS estimates, MSCI Asia ex Japan trades on 2017 P/B 1.4x, P/E 12.8x and DY 2.7%, and these metrics appear reasonable, notwithstanding that future prospects will inevitably be influenced by the global environment, and therefore any potential changes or shocks to the latter.

Whilst the task has been made harder by the surge of liquidity and associated volatility caused by ultra-low interest rates globally, we continue to focus on finding well-managed businesses, with good recurring cashflows and future prospects, rational capital allocation and offering valuation upside, taking a 3-5 year investment view.