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 2017

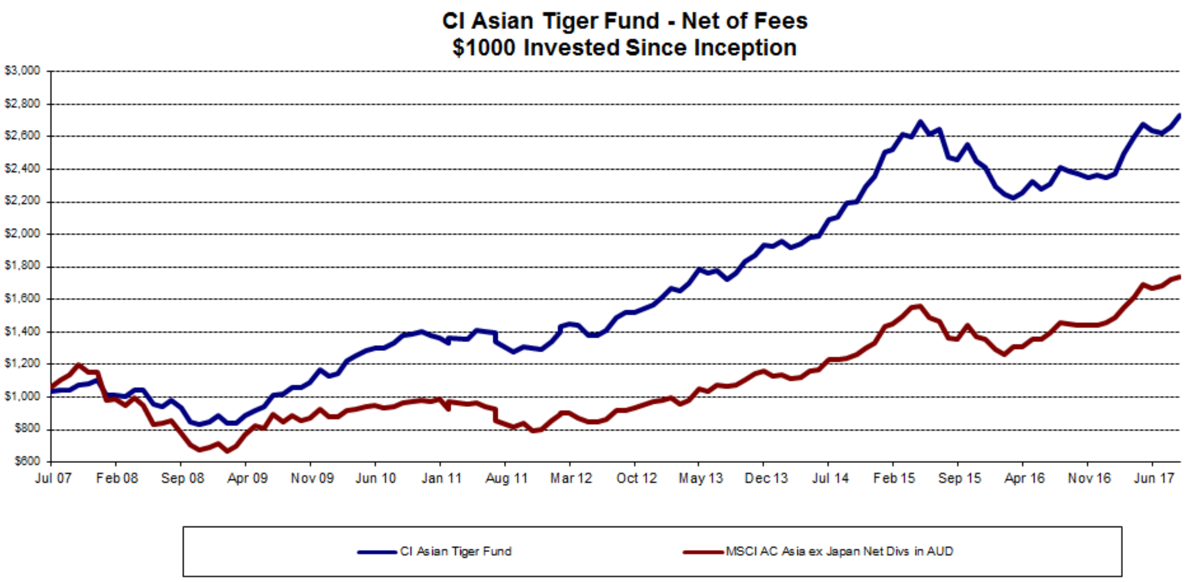
"Those who cannot forgive others break the bridge over which they themselves must pass." Confucius

"If you always give, you will always have." Chinese Proverb

"We do not inherit the earth from our ancestors, we borrow it from our children." Haida Indian saying

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTH	3.84%	4.23%	-0.39%
ROLLING 1 YEAR	15.40%	19.65%	-4.25%
ROLLING 2 YEAR	6.64%	13.26%	-6.62%
ROLLING 3 YEAR	8.99%	11.88%	-2.89%
ROLLING 5 YEAR	14.61%	13.67%	0.94%
ROLLING 7 YEAR	12.01%	8.80%	3.21%
ROLLING 10 YEAR	11.97%	4.33%	7.64%
SINCE INCEPTION*	12.13%	5.54%	6.59%
SINCE INCEPTION^	223.27%	73.80%	149.47%

*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

Asia is back in the “limelight”. The MSCI AC Asia ex Japan increased 4.2% over the September quarter in A$ terms with net dividends, compared to a gain of 2.8% on the same basis for the MSCI AC World index. This continues the trend of MSCI AC Asia ex Japan outperformance, which started this calendar year. This trend looks like it will continue with the “wild card” being fiscal easing in America. That stated, common sense would suggest, that it would be in the Republican Party’s interests, to see some initiative develop, before the congressional elections in November 2018. Indeed in the last few days President Trump has announced plans for tax reforms in America. Among other things this involves a reduction in corporate/personal taxation, eliminating most deductions, allowing the immediate expensing of capital investments and giving incentives for the repatriation of corporate cash held offshore. However there is very little detail and it is unclear how everything will be funded.

Asia’s recent outperformance has occurred despite the escalating geo political tensions associated with North Korea. This has been particularly evident in the war of words between Pyongyang and Washington DC. This is important because China, which has the most influence over North Korea, has to date been reluctant to do “very much” seeing it mainly as an American issue. According to a report from the Stockholm International Peace Research Institute (SIPRI), 9 countries around the world now have access to nuclear weapons, including North Korea. As such, “Pandora’s Box” has already been opened and the reality is the world must find new ways of limiting nuclear proliferation. Meanwhile the financial markets will remain unsettled until news emanating from the Korean Peninsula becomes calmer. Over the quarter the Asian Tiger Fund rose 3.84% in A$ terms with net dividends, which resulted in under performance of -0.39% compared to its benchmark.

Turning to the USA, the Federal Reserve has started the process to normalise the size of its balance sheet and further interest rate increases are expected later in 2017, with more to come next year. Despite this US GDP growth remains modest, inflation below the targeted 2% level and the US$ weak. Unless things start to change, interest rate movements seem likely to be very modest. Over the last 9 months most Asian currencies have appreciated against the US$. This has occurred against a background of good growth, low inflation and little prospect for higher interest rates in Asia, at least in the short term. On balance further appreciation is likely in Asian currencies against the US$. World trade growth has benefited Asia and while further momentum is unlikely, so is any sizeable movement on the downside. The A$ has also moved higher against the US$ since the start of this year and generally appreciated against Asian currencies. Indeed over the last three months, A$ gains ranged from a modest 0.2% against the Chinese RMB to a more marked 3.4% against the Indonesian rupiah. Commodity price gains and interest rate differentials would have helped sentiment. As previously mentioned Asian markets performed well over the quarter and the table below highlights the movements of the various markets in our benchmark.

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MSCI Data with net dividends	September Qtr 2017 in A$ terms	September Qtr 2017 in local currency terms	12 month to September 2017 in A$ terms	12 month to September 2017 in local currency terms
AC World	2.8%	4.4%	15.7%	18.3%
AC Asia ex JP	4.2%	6.6%	19.6%	23.1%
China	12.1%	14.7%	29.7%	33.8%
Hong Kong	2.8%	5.2%	13.4%	17.1%
India	0.6%	4.0%	11.4%	12.0%
Indonesia	-3.3%	0.0%	3.3%	9.3%
Korea	0.4%	2.8%	21.7%	29.8%
Malaysia	-0.4%	0.2%	3.6%	8.4%
Philippines	0.7%	3.7%	-0.4%	7.0%
Singapore	0.8%	1.7%	15.7%	18.2%
Taiwan	-1.4%	0.5%	17.0%	16.0%
Thailand	8.0%	8.5%	17.8%	16.2%

Over the last 3 months China was the best performing market rising 12.1% in A$ terms with net dividends. China has been at the centre of increased economic activity within Asia. GDP growth in China is likely to amount to around 6.8% in 2017, albeit it will moderate from here.

The Peoples Bank of China (PBOC) monetary policy has been "prudent" and interest rates tightened. Together with financial deleveraging, this has ensured more restrained credit growth and slower Total Social Financing (TSF). Tighter regulatory enforcement in China's financial sector has also slowed credit growth in the country's shadow banking sector. The anti-corruption campaign is ongoing in China and this has been augmented by further reforms.

In this respect Supply Side reform has been particularly important. State Owned Enterprises (SOE) have a significant presence in a number of industries suffering from chronic overcapacity. These industries are also significant polluters and many of the companies operating in them "highly leveraged". The last point is an ongoing issue for the Chinese banking industry. Nevertheless closure of excess capacity and industrial consolidation should improve SOE profitability, which will be positive for the Chinese banks, as SOEs hold the majority of the country's corporate debt.

Furthermore, encouragement should also be taken from ongoing financial reform in China. Examples of this in recent years include the liberalism of bank deposit/ lending rates, the QF II (inflows)/ QD II (outflows) programmes, the ability of local government to issue debt, the establishment of Free Trade Zones (e.g. Shanghai), the China Foreign Exchange Trade System (CFETS), leadership changes in China's bank, insurance and securities regulatory commissions and the stock/bond connect programmes. Furthermore, this progress has been recognised with the RMB being added by the IMF to its Special Drawing Rights basket and the MSCI adding mainland A shares to its emerging market index on a gradual basis.

Lastly with strong GDP growth and added impetus coming from urbanisation and new age internet industries China's household consumption has risen to 39% of GDP (the global average is 60% according to IMF) while the service sector's share of the economy is now 52%. The latter point is

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important as a source of employment, given redundancies being created elsewhere in the economy as a result of supply side reform.

While we await development from the forthcoming 19th National Congress of the Communist Party of China, there is little doubt it will "cement the power" of President Xi Jinping. What is less clear is to what extent, it may change political and economic policies of the PRC. While we remain encouraged by the recent reforms in China, we are aware that much remains to be done and that they will take considerable time to implement. Furthermore, risks remain, and some of these were again highlighted by the IMF in a report on China dated August 2017. Some of the key challenges articulated can be summarised as follows:

- Strong growth after the Global Financial Crisis was driven by rapid credit growth. Nominal credit to the non-financial sector has more than doubled in the last five years and the total domestic non-financial credit to GDP ratio increased by 60% to 230% in 2016.
- Complex and primarily short term funding strategies have underpinned rapid credit growth.
- Credit efficiency (benefit of new lending to economic growth) has deteriorated sharply.
- Sustainable GDP growth was likely lower than actual growth over the last 5 years. Without "excess credit growth" China's GDP growth over 2012 – 2016 period would have been 1.4% – 2.0% below the average of 7.3%.
- Corporate lending has increased significantly with a disproportionate amount going to the SOEs. China must try and improve private company access to formal credit.
- China's high savings rate (46% of GDP v the global average of 2.5%) has supported the credit boom, but is likely to fall in the future. China should increase expenditure on health, pensions and education as its economic transition has weakened its social safety net.

Thailand was back in the news over the last three months. Former Prime Minister Yingluck Shinawatra, was found guilty of negligence in the way she handled a controversial rice subsidy programme. While this benefited Thai farmers and the rural poor, it cost the government billions of dollars. She received, having fled the country, a jail term of 5 years in absentia. She is now believed to be in Dubai, with her exiled brother Thaksin Shinawatra. Thailand has long been "plagued" by volatile politics and no general election is expected before the latter part of 2018.

Against this background and despite a lift in government expenditure on infrastructure, together with income support for rural households, Thailand's economy remains very subdued. With Thailand running a significant account surplus (lower imports) and tourism "holding up", the Thai baht has remained a strong currency (negative for exports). Despite all of the aforementioned the share market remains well supported by domestic institutions (retail inflows) and rose 8% in A$ terms with net dividends over the quarter.

While South Korea only rose 0.4% in A$ terms with net dividends, it is still one of Asia's best performing markets over the last year. On the news front, South Korea's socialist government is planning to increase taxes on wealthy individuals and large companies. The latter is defined by corporates earning more than KRW200bn in profit each year. From 2018 onwards these companies will pay a corporate tax rate of 25% rather than 22% today. The government has also announced tighter mortgage lending rules and increased capital gains tax for owners of multiple homes. These moves are design to reduce speculation in the property market. These actions will facilitate an increase in social spending and be used to create more public service jobs. Going forward it appears likely the construction, property and banking industries will slow and this will negatively impact the domestic economy. As such, Korea will remain dependent on the export sector and particularly technology products, for growth.

Lastly we remain "cautiously optimistic" about the potential for corporate governance improvement in Korea, albeit that it is still early days. Some examples would include the appointment of Jang Ha Sung as Chief Policy Maker and Sang-Jo Kim as Head of the Free Trade Commission, the introduction of the Stewardship Code and more shareholder friendly moves, be it the trend towards higher dividends and/or share cancellations (example Samsung Electronics). In this sense, we hope recent prosecution and "jail time" of high profile Koreans is the corporate governance "low" in Korea. Nevertheless for momentum to be maintained, the process of corporate reform and with it governance, will need to be led by the Korean government. This is what Prime Minister Shinzo Abe has done in Japan and progress is being made.

In contrast to Korea, which ended the September quarter in positive territory, the Taiwanese market fell 1.4% in A$ terms with net dividends. While there have been no developments in regard to cross straight relations with China, overseas interest in the country's technology sector remains "healthy". While investors have differing views on the semiconductor cycle, it does appear that there is a broadening use of its "ecosystem" and wider applications for its products. This is because technology is creating new industries. This bodes well for the future.

The Indonesian market was the worst performing market over the last 3 months declining 3.3% in A$ terms with net dividends. While President Widodo is still popular, the recent imprisonment of Basuki Tjahaja Purnama for blasphemy continues to unsettle investors. What future influence the rise of political Islam has on "Pancasila" (religious tolerance) or the 2019 Presidential election remains to be seen.

While Indonesia's economic fundamentals remain sound, the country remains "commodity based". In this respect President Widodo will have to be careful his "populist" and "interventionist" policies don't create more harm than good. What Indonesia needs is less bureaucracy, more consistent application of the law and regulations and improved infrastructure/logistics. Despite continuing interest rate cuts, the Indonesia Rupiah has been comparatively stable, but bank credit growth remains subdued, as is domestic demand. While the government continues to spend on infrastructure, disappointingly private sector investment demand has shown little sign of improvement.

With Indian CPI inflation slowing, the Reserve Bank of India (RBI) further reduced interest rates. This was reflected in a 25bps reduction in its repo rate to 6%. With high real rates in India, this seems "justifiable". Indeed further reductions seem possible, as the Indian economy is still "weathering" the impact of demonization and the introduction of the Goods and Services Tax (GST), both of which negatively impact the economy. Nevertheless longer term, we believe the Indian economy will see material benefit from Prime Minister Modi's reform initiatives. Looking ahead, bank sector and labour law reform remain on the "to do list", albeit the former has already started.

The Portfolio

The portfolio saw a comparatively active three months of trading. The indicative portfolio turnover in this period was 15% versus 13% for the Financial Year ending June 2017. At the end of this quarter the portfolio had a cash position of 7.8%.

In China, we initiated positions in **Netease**, **ZTE and Ping An**, while elsewhere new investments were made in **Taiwan Semiconductor (Taiwan)**, **Samsung Electronics (Korea)**, **Bank Central Asia (Indonesia)** and **SBI Life (India)**. Brief comments are now made on each of these companies.

Founded and run by a highly reputable game developer, Mr. Ding Lei, **Netease** is the second largest online gaming company in China, with a strong track record over the past two decades. We believe gaming is becoming a more important entertainment channel globally, especially with the younger generations. Mobile gaming in China is particularly attractive with robust growth and high barriers to entry (harder to get new gamers with unknown IPs on mobile) that results in an oligopoly between Tencent and Netease. We see strong value latency in Netease as it currently trades at 16 x 2018 P/E for sustainable 15 - 20% growth and over 10% of its market cap in cash.

ZTE is a large telecom equipment maker in China supplying to both domestic (60% of total) and global carriers. We believe ZTE will be a key beneficiary of the upcoming 5th generation ("5G") upgrade globally. 5G will represent the first time that global carriers apply the same technology specifications and standards, giving the equipment makers with the largest home market (i.e., ZTE and its privately owned competitor Huawei) a decisive cost advantage over its global peers such as Nokia and Ericsson. ZTE is also emerging from a restructuring after its ban and subsequent settlement with the US government in 2016, resulting in a more focused management team who terminated various unprofitable initiatives and sold non-core assets.

Ping An is a leading financial conglomerate in China, ranking number two in both Life and Property & Casualty insurance. We view the insurance industry in China positively over the long run given its low penetration at 4%, markedly lower than 7%+ on average for OECD countries. The company has a strong track record, generating life insurance new business premium CAGR of 33% between 2013 and 2016, and importantly, has maintained strong profitability/ returns during a high growth period. Moreover, Ping An is a leader in financial technology amongst the major financial institution in China, if not in the world. It spends over A$1.3bn in R&D annually, far exceeding its peers. It has partnered with large internet companies in China and incubated multiple successful standalone start-ups such as Zhong An (a pure online insurance company recently listed in HK with a A$15 billion market cap[1] of which Ping An holds a 12% stake), Lufax (peer lending platform; IPO preparation has commenced), and Good Doctor (online to offline healthcare servicing platform). We believe over time Ping An will have a competitive advantage over its peers on effectively leveraging online distribution as well as understanding the pricing of new formats of insurance.

Taiwan Semiconductor (TSMC) pioneered the outsourcing (or foundry) business model and is an enabler of industry innovation. Foundry share of the industry will continue to rise as their end customers are more profitable and hence able to invest in more R&D, which creates a self-reinforcing loop. TSMC enjoys technology leadership and strong connectivity to its clients, and hence its technology roadmap is clear. Due to steadily compounding earnings, high margins and returns, the company has a high dividend payout ratio (50%). The management team is deep with a good track record and places a strong emphasis on maintaining its competitive advantage.

Samsung Electronics (SEC) has a long operating history. The market appears to be overly and unfairly discounting cyclicality in its memory division, in our view. SEC has technology leadership in the display segment, which is enjoying a technology transition and should be a new growth driver. Despite a well-publicised battery incident, brand loyalty remains high in its handset segment, where SEC is number one globally. We think recent developments (Vice Chairman JY Lee's guilty verdict and potential National Pension Scheme restructuring, amongst others) are positive for corporate governance reforms. We would encourage the company to continue on its path of improving transparency. Higher shareholder returns with a greater bias towards dividends would also be a step in the right direction.

We also initiated a position in **Bank Central Asia (BCA)**, the leading private commercial bank in Indonesia. We remain positive on the banking sector in Indonesia given low credit penetration and the stable competitive landscape. BCA is clearly the most progressive of the Indonesian banks and in our

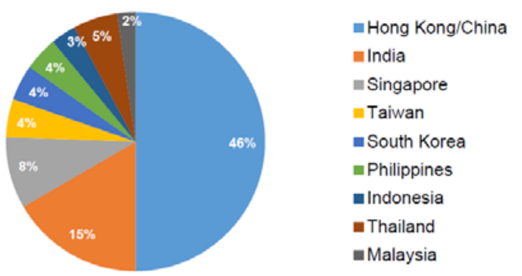
[1] As of Oct 3rd, 2017

view, financially and strategically, best in class. We have followed the bank for many years, regularly visiting management and twice visiting the team in recent months, in Jakarta and in Singapore. Following the initiation of this position, we exited our investment in Bank Rakyat Indonesia. While the investment has done well for us we see increasing risks from regulatory interference in its core micro finance business as well as tail risks from increased lending to state-owned corporates.

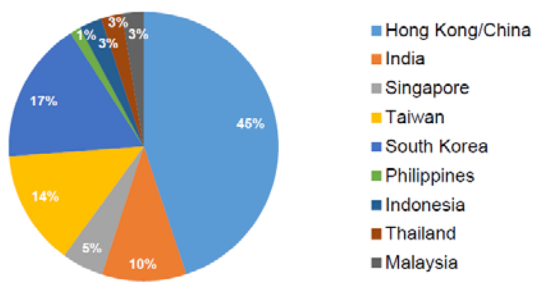
We participated in the IPO of **SBI Life**, the leading private life insurer in India. We have followed the sector for some time having invested in Max Financial Services. We view SBI Life as the most attractive player in the market owing largely to the distribution partnership with its parent and India's largest bank, the State Bank of India (SBI). SBI has 24,000 branches, 5 times more than its nearest rival. In our view, this provides significant scope for continued strong growth for many years to come. The IPO had been highly anticipated so we met a number of SBI Life's competitors earlier in the year in India, and were able to complement this by meeting with the senior management of SBI Life in Singapore during the IPO roadshow. Following the initiation of this position, we exited our position in Max Financial Services.

Outlined below is the current geographic and industrial exposure of the ATF:

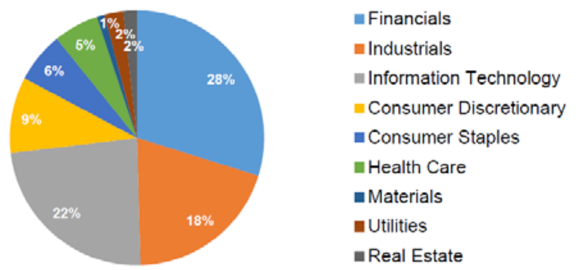
Geographic exposure of the Fund



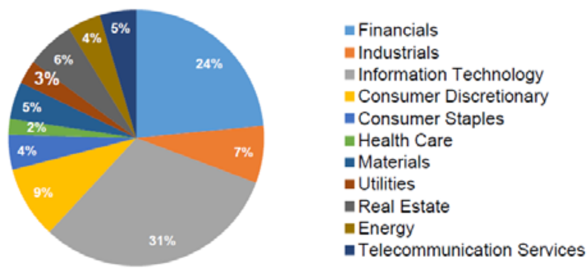
Geographic exposure of the Benchmark



Industry exposure of the Fund



Industry exposure of the Benchmark



International Trips – Observations and Comments

The team made two visits to Greater China and North Asia during the quarter. Our first trip entailed a portfolio manager basing herself in Hong Kong for a period of four weeks. This exercise proved very worthwhile and below are some summarised thoughts.

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Semiconductors - Semiconductors play a critical part in the digitisation trend which is underway globally. With a strong background in maths and science, some of the leading companies in this industry can be found in Korea and Taiwan. Entry barriers for the industry are rising, due to higher technology and capex requirements. This strengthens the competitive positions of the market leaders. Underlying demand remains robust, driven by the interplay of more applications/products, connected devices, usage and higher computing requirements. As part of this theme investments were made in **TSMC** and **Samsung Electronics**.

Chinese industrials - Our sense is that the economy is recovering, with ecommerce, exports and infrastructure being areas of strength. This is offsetting slowing automotive and property sales, in part due to the positive impact of prior government policies ending. Government incentives are encouraging environmental, automation and technology programs and favour local companies. The first half results for our portfolio holdings (textile and garment outsourcing, industrial machinery, gas utilities) were generally stronger than expected. That said, these companies' capex intentions remain guarded, which is unsurprising given the long-term downward trajectory of China's growth.

There is also a strong focus on reaping efficiency and cost savings. For example, one company cited a two thirds saving in the number of employees required for one production line post undertaking full automation. This same company intends to progressively roll out this program over the next 5 - 10 years for its entire Chinese operations. We think automation will play a role in solving China's well-publicised demographic problem, with robot penetration in China (<50 per 10,000 workers vs. 300 or more in German, Japan and Korea) likely to rise.

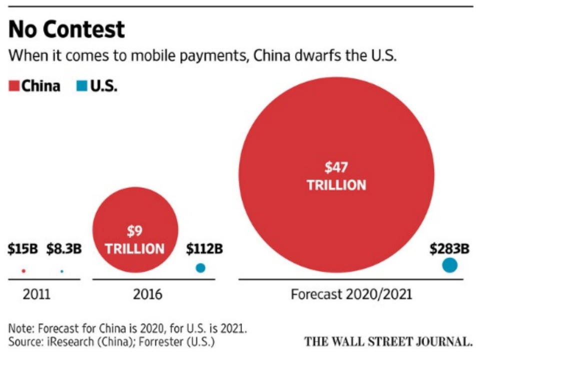
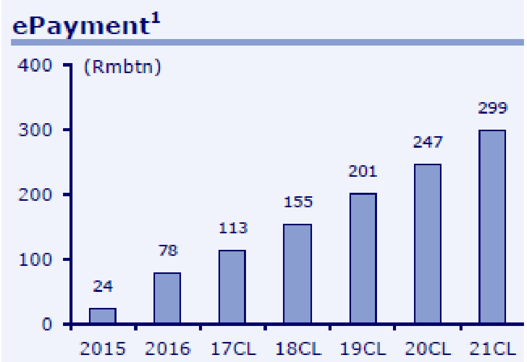
Globalisation also remains underway, be it through new markets (like India) or increased/new investments in offshore plants (South East Asia and India), and we think over time the share of non-China sourced profits will continue to rise. Valuations for this group of companies remain reasonable and they remain an important part of the portfolio.

Wellness – An increasingly well-off and sophisticated consumer in China is driving strong demand for healthy and quality products, be it sportswear, beauty or food, amongst others. However, customer loyalty seems more fickle than before, no doubt heavily influenced by social media and e-commerce which have removed many entry barriers. Attributes of better placed companies are small or flexible production capabilities, premium products, underpenetrated market opportunities, and perhaps most importantly the right cultural attributes, being forward thinking, open minded management, close customer connectivity and strong branding/marketing expertise.

Healthcare – The industry is being negatively impacted by government reforms aimed at reducing public spending, through reducing the reliance of hospitals on drug sales and distributor consolidation. This has manifested itself in pricing pressure from drug and equipment tenders and also excess inventory in certain segments. Better placed companies have exposure to faster growing therapies and greater insurance coverage. The R&D pipeline for the more innovative companies should also reach commercialisation from 2018 onwards. Indeed the regulator seems supportive of local companies. That said, the response of the MNC originator to pricing remains a big unknown. Positioning seems to be key to the success of new or growing hospitals, be it through targeting high end users, or in areas lacking medical resources and therefore more likely to attract government support. We continue to hold our investment in **Shanghai Fosun** which gives the ATF broad exposure in the healthcare sector in China.

Our second trip, made by another team member, also took us to Greater China. On this trip we met with over 40 companies in Beijing, Shanghai, Hong Kong and Shenzhen. Our visits covered a broad range of industries including retail, technology, real estate, financials and industrials. The two clear trends we observed were the internet transformation of the economy and premiumisation of consumption driven by household credit.

Backed by savvy and adaptive users who eagerly embrace smartphones, China internet has catapulted past its global peers in innovation, sophistication and adoption. Mobile payments in China are now over 80 times the size of those in the US[2]. 'Shared economy' has been the new phenomenon as over 10 million dock-less bikes flooded China over the past year[3]. Over 20% of apparel and 50% of mutual funds are now sold online. Beyond enthusiastic consumer adoption, businesses are also taking notice as internet innovation transforms almost every industry. Some schools (private education) are live-broadcasting lectures from its best teachers in Beijing and Shanghai to students in small towns. Certain hotel groups are equipping cleaning staff with smartphones so both managers and customers can receive room updates in real time. We believe that we are still in the early stage of this transformation and will continue seeking the best investment ideas in this trend.

Mobile Payment Size Dwarfs Global Levels[2]	Growth is Projected to Continue[4]
	

The rise of the Chinese consumer is unmistakable as we witness some of the most vibrant consumption in recent years. Premiumisation and innovation are key as price sensitivities give way to consideration for safety and quality. One important driver to the change in consumer preference, is the rapid growth of consumer credit. Short term consumer debt is growing at 35% year-over-year and accelerating[5]. Chinese household debt levels are still relatively low at 47% of GDP (versus Australia at 120% and US at 80%)[6]. We expect this level to rise to 60% which "bodes well" for consumption.

Yet another trip was made to India in the last week of August, two months after the implementation of a Goods and Services Tax (GST). As expected, the introduction of a GST has resulted in a slowdown for consumer-related businesses due to trade de-stocking, with some exceptions (e.g. the auto sector which to a large degree is already an organised sector). Our meetings, however, suggested the implementation of the GST will provide benefits over the long term, not only through the acceleration of a formalisation trend in the Indian economy, but also in the form of efficiency gains in supply chain and logistics. One immediate change is the removal of various checkpoints at state borders, which significantly reduce travel time for trucks that typically had to wait for several days. Although it's still too early to assess the impact, we believe our holding **Ashok Leyland** will be a beneficiary of more demand for trucks with higher tonnage.

[2] Source: WSJ. Sep 2017. https://www.wsj.com/articles/alibaba-and-tencent-set-fast-pace-in-mobile-payments-race-1506072602
[3] Source: South Morning Post, Oct 2017. http://www.scmp.com/week-asia/business/article/2113028/are-chinas-bike-sharing-services-oversharing
[4] Source: CLSA, Sep 2017. "China Leapfrogs the West – World's Largest eFinance ecosystem"
[5] Source: Deutsche Bank. August 17th, 2017. "China's Consumer Debt Boom"
[6] Source: Deutsche Bank. August 17th, 2017. "China's Consumer Debt Boom"

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While the Modi government has started to reform the Indian economy, results will take time to materialise and issues remain. For example, our conversations with the two leading staff outsourcing companies suggested that although the government's recent moves on labour codes are a positive, the fact is it will not be implemented before the next election. Also, although GST is a big improvement compared to the combination of central and state taxes, the six tax rates are much more complex than a single tax rate as adopted in most countries. On the economic front, the current investment cycle is being kept afloat only by public spending, while private capex has remained weak.

All that said, most companies we met view the central government in a positive light ("a facilitator not a regulator" according to one company executive) and have experienced improvement in ease of doing business. The current government has also brought about macroeconomic stability with the absence of double-digit inflation as one example (of course, the lower oil price has helped). We are hopeful that the government will introduce a second wave of reforms. With the recent political developments in Bihar and Tamil Nadu, the BJP-led National Democratic Alliance may be inching towards a majority in the Rajya Sabha. This will help the government push through real reforms.

Finally, we also visited Malaysia and the Philippines. On our first day in Malaysia the government announced a public holiday following the country's success in the 2017 SEA Games. This gave the public a five-day long weekend, with one company we subsequently met saying "there are too many holidays in Malaysia". That said, overall sentiment has improved compared to when we visited last year. The cheaper Ringgit has helped exports to recover and tourism appears to be thriving. Infrastructure will be a growth driver with several high-profile projects including the planned Singapore-KL high speed train. Consumption also appears to be bottoming out with "goodies" likely to be handed out ahead of election. The Malaysian operation of our holding in Thailand's HomePro appears to be gaining good traction with the local shoppers.

Interestingly like other countries in the region, Malaysian tourism is benefiting from rising numbers of Chinese holidaymakers, while the local economy has also been assisted by increasing Chinese corporate investment in infrastructure and property projects.

The Philippines is the another country in ASEAN that has experienced a growing number of tourist arrivals from China, helped in part by the recent improvement in Philippine-China relations. Also, Chinese companies have been setting up offshore gaming operations locally. Sentiment on the ground is generally positive. President Duterte continues to have a high approval rating. After some delay, things appear to be turning positive for the government's massive infrastructure program with the unveiling of the ambitious US$7 billion Mega Manila Subway project.

Market Outlook

Around the world investors continue to search for yield. In a low inflation environment with very modest risk free interest rates this remains a great challenge. An outworking is that some historically conservative investors have moved from cash and bonds into shares, to boost income. Unfortunately equity markets are no easier, with the internet and new technology changing the corporate landscape forever.

Reflecting this, recent equity returns have been concentrated in a limited number of stocks. In Asia this manifests itself in Chinese internet stocks, technology stocks in Korea and Taiwan and consumer related businesses in India and South East Asian countries. Nevertheless, most of these "growth companies" are well known and attract "premium valuations". From a longer term perspective perhaps some of these companies deserve their ratings, as they have fine track records and appear to have solid growth prospects. Nevertheless "risks" deemed insignificant today (for example regulatory risk on huge internet/technology companies) may change in the future. It is worth remembering the comment Michael Mauboussin made a number of years ago "Perhaps the single greatest error in the investment business is a failure to distinguish between knowledge of a company's fundamentals and the expectations implied by its market price". For this reason we try to maintain balance in the portfolio through diversification by geography, industry and at a company level, by VOF subsets of value. Notwithstanding the potential for some fiscal easing in America, we continue to believe Asia's relative outperformance is set to continue.

Portfolio Characteristics

	Portfolio*	Benchmark	Variance
Number of stocks	46	634	588
Beta	0.87	1.0	-0.13
P/E (x)	16.5	13.0	3.5
Yield (%)	2.0	2.5	-0.5
P/B (x)	2.4	1.6	0.8
Historical EPSg (%)	14.4	10.9	3.5
Forecast EPSg (%)	14.5	13.9	0.6
Return on Equity (%)	14.4	12.6	1.8
Dividend Cover (x)	3.1	3.1	0.0
Net Debt/Equity (%)	-9.0	17.0	-26.0

Source: UBS PAS

(Portfolio characteristics are those of the CI Asian Tiger Fund).

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