CI ASIAN TIGER FUND
QUARTERLY REPORT

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

SEPTEMBER 2013

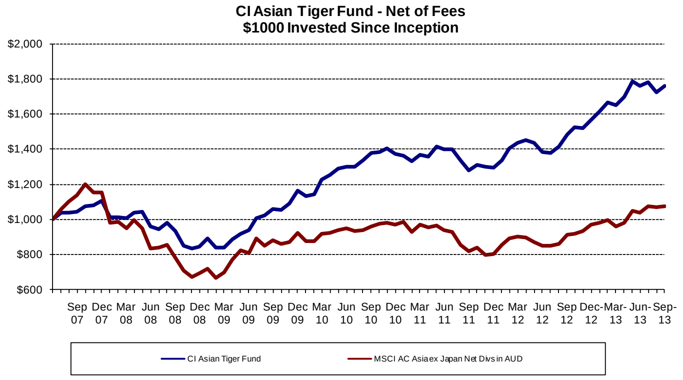
"Smiling away your troubles requires a clear conscience that harbours no insecurity." Paramhansa Yogananda.

"The Snow Goose need not bathe to make itself white. Neither need you do anything but be yourself." Chinese proverb.

"There is more to life than increasing its speed." Mahatma Gandhi.

	**PORTFOLIO	BENCHMARK	VALUE ADDED
ROLLING 3 MONTH	0.24%	3.50%	-3.26%
ROLLING 1 YEAR	20.77%	17.16%	3.61%
ROLLING 2 YEAR	19.01%	14.42%	4.59%
ROLLING 3 YEAR	10.55%	3.68%	6.87%
ROLLING 5 YEAR	15.98%	6.57%	9.41%
SINCE INCEPTION*	11.50%	1.14%	10.36%
SINCE INCEPTION^	97.48%	7.32%	90.16%

*Annualised
^Cumulative (2 July 2007)
**Before fees and expenses



Market and Portfolio Performance

The beneficial aspects of quantitative easing (QE) have yet to become readily evident from a world economic perspective. Growth remains anaemic (or negative) in both the USA and Europe, while global inflation remains very low. Both the aforementioned regions still have little or no real disposable income growth, rising costs of living, high unemployment and elevated levels of debt. Furthermore, both face more challenging demographic profiles in future years. While GDP growth in the USA, Europe and Japan may recover modestly next year, modestly benefiting commodity prices, "normalisation" seems unlikely. An outworking of QE, through lower interest rates, has been an increase in the debt in Asia. Many countries in Asia have also seen deterioration in their current accounts with a number running deficits. These factors and others have been behind the recent currency devaluations and subsequent rise in interest rates. As a generalisation, capital has moved from Asia to developed markets, while within the region it has moved from ASEAN and India to China/HK and both Taiwan and Korea. Reflecting these and other factors the MSCI AC Asia Ex-Japan Index in A$ terms (with net dividends) again under-performed the MSCI AC World Index in A$ Terms (with net dividends), as it did over the financial year ending the 30 June 2013. The relevant MSCI data (with net dividends) was:

	Sept Q 2013 A$	2012/13 Financial Year A$
MSCI World	+5.6%	30.5%
MSCI AC Asia Ex-Japan	+3.5%	21.9%

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Within Asia, many of the regional markets moved in divergent directions over the September quarter. The three best performing markets in the index (A$ terms) were Korea, China and Hong Kong which rose 12.5%, 9.8% and 6.6% respectively. Conversely Indonesia was the worst performing market declining 25.6% while the Philippines, India and Thailand all recorded falls of between 7.2% - 7.3%.

MSCI data (with net dividends)

	Sept Q 2013 A$	Sept Q 2013 Local Currency
MSCI World	+5.6%	+6.3%
MSCI AC Asia Ex Japan	+3.5%	+5.4%
MSCI Australia	+9.6%	+9.6%
MSCI China	+9.8%	+12.2%
MSCI Hong Kong	+6.6%	+8.9%
MSCI India	-7.2%	-0.2%
MSCI Indonesia	-25.6%	-11.3%
MSCI Malaysia	-5.0%	+0.1%
MSCI Philippines	-7.3%	-4.6%
MSCI Singapore	+2.4%	+3.6%
MSCI Korea	+12.5%	+8.1%
MSCI Taiwan	+0.9%	+1.7%
MSCI Thailand	-7.2%	-4.4%

Over the September quarter, both the Chinese and Hong Kong markets have benefited from the belief that the government will introduce new stimulus measures, to further boost growth. Nothing of substance has yet surfaced to corroborate this position. Another factor that has aided sentiment is the Third Plenum of the 18th Chinese Communist Party Congress due to be held in November 2013. The meeting is important as new leadership in China has frequently used the Third Plenum to announce policy plans and political and economic reforms.

A recent article in the China Business Review stated that seven working groups have been established, consisting of party officials and policy advisors, to submit reform proposals for discussion on the following topics.

1. Banking and financial sectors
2. Fiscal and tax systems
3. Land use rights
4. Production factor prices
5. Administrative examinations and approvals
6. Social injustice
7. Household registration system (Hukou)

Other areas that may be subject to future reform include the role of state owned enterprises (SOE's) in the economy, bureaucratic restructuring and tax reform.

The recent movement in stock prices in China and Hong Kong would suggest investors are expecting positive news from this meeting. Whether any reforms are announced, and in what substance, and the timing of their implementation, remain to be seen. On balance, we expect some favourable news as it appears the new leadership is very aware of the structural issues facing China (credit growth in excess of GDP, over capacity in large SOE dominated industries) and the need for reform. Nevertheless we expect this to be done in a gradual and measured way. Indeed the structural adjustment in China's economy (to become more consumer orientated) seems likely to take longer than most market observers expect.

Over the last 10 years China has produced a cumulative total return in local currency terms with net dividends of 317% (Australia 145%). However, since the index peaked on the 1 November 2007, the return has been a negative 32%, despite strong ongoing growth (real GDP growth 2002-12, CAGR = 10.4%). This has puzzled some investors, but it should be remembered that the index is heavily dominated by government linked SOE's. With this in mind, CLSA recently highlighted that over the period 2004-2013 the SOE's share of industrial profits in China has fallen from 45% in 2004 to around 28% today. Furthermore, this is the very area of the market that would be adversely impacted by any government reform agenda. The prospective 2013 P/E ratio for the Chinese market is now 9.5 x (source JP Morgan) which makes it the second cheapest market in Asia behind Korea (prospective 2013 P/E ratio 8.8x). Perhaps some of the negatives more commonly associated with China are at least partially reflected in stock prices already. That stated, individual areas of the Chinese market (e.g. internet stocks) continue to perform well and are highly rated.

After China and Hong Kong, the next best performing market in Asia over the September quarter was Korea (+12.5% in A$ terms with net dividends). Both the Korean and Taiwanese economies are heavily dependent on exports to developed world markets, which are expected to experience better growth in 2014. Higher exports in turn should lift domestic consumption in both Korea and Taiwan. Nevertheless, the Korean Won has appreciated significantly (c30%) against the Japanese Yen over the last 12 months, and any further appreciation would erode its competitive position. Furthermore, according to CLSA, household debt is 90% of GDP and 155% of disposable income, making the Korean consumer one of the more leveraged in Asia. Nevertheless, this market is inexpensive, albeit with little or no dividend support (prospective 2013 dividend yield 1.0% - source JP Morgan). Interestingly, Samsung Electronics alone accounts for just under 30% of the MSCI Korean index.

Despite the buoyancy of China, Hong Kong and Korea, many other Asian markets performed poorly over the quarter, with macro-economic events dominating investor sentiment. The worst performing regional market was Indonesia (-25.6% in A$ terms with net dividends), while India was also disappointing.

Indonesia faces a number of issues such as a growing current account deficit, the end of the commodity boom and the upcoming general election in 2014. CLSA estimate that Indonesian bank credit growth has increased an annualised 24% over the last three years, while nominal GDP growth has grown an annualised 13% over the same period. Clearly, this raises the risk of the economy overheating. In addition, the fuel price increases announced in June (gasoline +44% / diesel +22%), will result in a spike in inflation to 7.5%-8% in the short term. These factors have resulted in investors selling Indonesian bonds and equities, which in turn has pressured the Indonesian rupiah. Key statistics include:

10 year yield Indonesian Govt Bond 28/6/13 to 30/9/13	Increase/decrease in MSCI Indonesia index in local currency 28/6/13 to 30/9/13	Movement in A$ / IDR rate from 28/6/13 to 30/9/13
7.04%* to 8.34%	-11.3%	+18.9%

**has risen from 5.8% as at the end of December 2012*

To help offset some of these factors, the new Bank Indonesia (BI) Governor, Mr Agus Martowardojo, has started to increase interest rates. BI's policy rate has increased from 6.0% (2Q 2013) to a current level of 7.25%, and a further increase is deemed likely. Notwithstanding the rate increases, which are a positive development, Indonesia's real GDP growth should still be around 5.5%-6.0% this year and 5.0%-5.5% in 2014. While Indonesia faces some near term challenges, the market has a number of important long term attributes such as a consumption orientated economy, increased manufacturing

competitiveness, the likely increases in infrastructure spending, the prospect of ongoing economic reforms and favourable demographics.

Other ASEAN markets performed relatively poorly over the September quarter as investors focussed on issues like foreign reserves, current accounts, fiscal deficits, and public sector debt. It is important to keep all these things in perspective. As such, the following table (sourced from JP Morgan) provides statistics on each of the aforementioned criteria, for a number of both developing and emerging markets in Asia.

Country	Foreign Reserves	Current Account		External Debt		Fiscal Deficit		Public Sector Debt	
	US$bn	2012(F)	2013(F)	2012(F)	2013(F)	2012(F)	2013(F)	2012(F)	2013(F)
		%GDP	%GDP	(US$bn)	%GDP	%GDP	%GDP	%GDP	%GDP
China	3,497	2.4	2.2	800	10	-2.0	-1.7	18.6	15.9
Korea	331	3.7	4.5	422	37	1.2	1.9	33.9	31.8
Taiwan	409	10.5	9.7	94	20	-2.0	-1.3	N/A	N/A
India	247	-4.5	-4.1	381	21	-5.6	-5.4	46.1	45.3
Malaysia	134	6.1	3.6	65	21	-4.7	-5.2	54.1	55.0
Indonesia	93	-2.6	-3.2	221	25	-2.1	-1.9	28.1	25.9
Thailand	160	0.8	0.6	90	25	-3.5	-4.1	37.4	39.3
Philippines	83	2.8	3.4	67	27	-2.4	-1.8	45.6	44.1

(F) = forecast
Source – JP Morgan

From a current account perspective, India and Indonesia are both running deficits, while Thailand is coming close to this situation. Current account deficits are not bad if they are associated with a pick-up in the investment cycle. Unfortunately this is not currently the case in India. With the exception of Korea, all countries are running fiscal deficits, with the most elevated levels being seen in India, Malaysia and Thailand.

Public sector debt levels as a percentage of GDP are all still respectable by global standards, although Fitch Ratings Agency recently cut its outlook on Malaysia's "A –" sovereign debt from stable to negative. Malaysia's household debt to GDP ratio has also risen from 60% in 2008 to 80% in 2012 on the back of rising consumption.

Interestingly, although the worst performing market over the September quarter, Indonesia's fiscal deficit and public sector debt positions are better than India, Malaysia and Thailand, although its foreign reserves are the lowest in the region.

Trying to weigh up all these factors, it would appear that if the global macro-economic environment was to deteriorate markedly from current levels, then India and ASEAN countries (except the Philippines), would be the most badly affected. In contrast, markets like Korea and Taiwan (together with developed markets like Singapore and Hong Kong) are likely to be far more resilient. Then again, it is not surprising to see some profit taking in ASEAN markets, as since bottoming post the Global Financial Crisis their gains have been spectacular and their out-performance significant.

Index	GFC Related Low	Cumulative Total Return from Low to 30/9/13 in local currency with net dividends
MSCI AC Asia Pacific ex Japan	02/03/09	121%
MSCI Indonesia	24/11/08	263%
MSCI Philippines	30/01/09	210%
MSCI Thailand	24/11/08	264%

The Indian market's performance over the September quarter was also disappointing (-7.2%). Indeed, the MSCI India index has "tracked sideways" since the third quarter of 2009. India has suffered from a number of negative factors which have inhibited market performance. These include, but are not limited to the following:

1. Lack of decision making by the ruling congress party, e.g. lack of reform agenda;
2. Ongoing corruption scandals;
3. Lack of infrastructure (including power);
4. High interest rates resulting from elevated levels of inflation;
5. Disappointing GDP growth and weak investment expenditure; and
6. Persistently high current account and fiscal deficits, resulting in a weak rupee.

Despite all the above, there have been some tentative signs of improvement. The new Finance Minister, Mr Chidambaram, has created a special cabinet committee to ensure more timely approval of investment projects. Furthermore, there has been some measure of debt restructuring amongst state electricity boards and power tariffs have increased. While growth has slowed in recent times, inflation has also declined, enabling the highly regarded Reserve Bank of India, now headed by Mr R Rajan, to reduce interest rates. Nevertheless, India needs a new investment cycle and this seems unlikely to occur until after the election in 2014 at the earliest. In the interim, with budget and current account deficits, India will remain dependent on foreign direct investment (FDI), which in turn leaves the country vulnerable to external events beyond its control. This has been highlighted by the decline of the Indian rupee over the last quarter (-6.4% against the A$). According to CLSA, while foreign ownership of Indian Government bonds amounts to only 1.6%, it increases to 22.4% for equities.

Lastly, there has been much debate about exchange rates in Asia over recent months. While it seems likely that certain countries (e.g. Australia, India, Indonesia and Thailand) may be vulnerable to further currency pressure over forthcoming months, taking a longer term view, many appear attractive. This is illustrated by the following table produced by the Economist magazine in July 2013.

Asian Currencies – The "Big Mac" Index

Over (+)/under (-)valuation vs. USD	Raw Index	Adjusted Index*
Australia	+1	-13
Hong Kong	-52	-45
India	-67	-43
Indonesia	-39	+4
Malaysia	-50	-23
Philippines	-42	+0
Singapore	-19	-20
South Korea	-25	-1
Taiwan	-42	-22
Thailand	-38	+3

Source: The Economist (July 2013)
** Adjusted for per capita GDP*

The Portfolio

The portfolio returned 0.24% for the quarter, which was 3.26% lower than the benchmark return of 3.5%. This under-performance reflected first, the write-down of our position in China Metal Recycling (CMR) to zero (discussed in further detail below), secondly, the portfolio's "defensive" nature (being low beta), and thirdly, the portfolio's holdings in Indonesia and India, which offset positive contributions from a broad cross section of stocks most notably in Hong Kong/China.

During the quarter, we received news that the Hong Kong securities regulator has appointed a provisional liquidator to China Metal Recycling. The securities regulator has also been conducting its own investigations into the company's finances. Given this development, we believe it prudent to value the shares at zero, given the uncertainty and likely length of the legal process involved from here on. CMR had previously been a 0.6% position in the Asian Tiger Fund.

Although some changes were made to the portfolio over the September quarter, overall turnover remains modest at 18%.

From a geographic standpoint, the portfolio has 36.2% of its funds invested in Hong Kong/China (overweight), 31.6% in ASEAN (overweight), 10.8% in North Asia (underweight), 10% in India (overweight), 3.9% in Australia and 7% in cash.

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By industry groupings, the portfolio's largest weightings are in financials (25.9% - underweight), industrials (26.8% - overweight), consumer discretionary (13.0% - overweight), and consumer staples (10.2% -overweight).

The portfolio remains heavily weighted towards the domestic demand driven consumption theme in Asia. While many ASEAN countries have suffered negative press comments in recent times, it must be remembered that the region continues to grow rapidly, has an expanding middle class and population growth. Furthermore 25% of ASEAN trade is now with member states, 7% with China and the balance with the rest of the world. Lastly, many emerging growth markets in Asia are tiny, when compared with developed markets around the world, which highlights the importance of taking a long term view.

Country	Free Float (FF) Market Capitalisation Sept 2013
Indonesia	US$ 158 billion
Malaysia	US$ 193 billion
Philippines	US$ 64 billion
Thailand	US$ 131 billion
America	US$ 18,963 billion
Australia	US$ 1,336 billion

Source: JP Morgan

The aggregate of the market capitalisation of the above four Asian countries is US$546 billion. This compares with market capitalisations of US$438 billion for Apple Inc and US$382 billion for Exxon Mobil Corporation, which are the two largest companies in America. As such, we believe a weighting in ASEAN is integral to a sound, sensible diversified Asian portfolio, but we acknowledge that the region (and India) have near term challenges.

From an individual stock perspective, we participated in the ALS placement, thereby increasing the portfolio's weighting in this stock. Conversely, our investment in Navitas, which had heavy insider selling over the quarter, was downsized on valuation criteria. We established one new investment position in Indonesia, in a well known property company with reoccurring revenue and funded it by disposing of an existing investment in that country. We incrementally increased our Indian investments at the margin for similar reasons. Elsewhere we reduced our exposure to growth cyclical stocks in Hong Kong / China on attainment of valuation target prices, following good price gains. In addition, we lowered our exposure to Malaysia, but established a new holding in Singapore, which provides the portfolio with indirect consumption exposure. Lastly, we added a new stock position (retail orientated) in Korea and increased the portfolio's exposure to an existing investment (indirect energy) in that country. In conclusion the portfolio's investment in Vinda, the leading tissue company in China behind Hengan, was subject to a cash bid of HK$11.00 from a major shareholder SCA (Swedish company) who already owns just under 22% of the company. We monitor this position awaiting developments.

International Visits – Observations and comments

We visited Indonesia and Philippines for our quarterly research program.

Demographics

Both countries stand out from a demographics perspective, with large, young and growing populations. Indonesia has a population of 240m (4th most populous globally), with median age 28.9 years and annual growth of 1.9%. The Philippines has a population of 105m (12th most populous globally), with median age 23.3 years and annual growth 1.8%.

The United Nation forecasts that between 2013 and 2033, the labour force of the Philippines will increase by 41m, and that of Indonesia by 24m, in sharp contrast to North Asia, China and Europe, which will experience declines.

Politics

Both Indonesia and Philippines are still relatively "young" democracies and whilst subject to the usual populist tensions, their political systems appear to be stable. The limit on the presidential term in the Philippines (which is a single term of 6 years) is "too short" to enact significant changes and to date there has been "more talk than action" on various economic initiatives (e.g. agriculture, infrastructure, minerals development, amongst others). Any progress on the latter could see the Philippines live up closer to the country's full potential.

The coalition nature of Indonesia's government appears to have hampered notable progress on infrastructure development, contributing to inflationary pressures. Indonesia faces a presidential election next year, and the list of potential candidates remains unclear. Given this, we are not hopeful of significant (policy or economic) changes between now and then.

Economics

We continue to see evidence of the Philippines effectively "exporting" its young workforce, both onshore (through a growing Business Process Outsourcing industry, US13.4b in 2012 or c5% of GDP, and forecast to grow to 20b by 2016) and offshore (skilled and semi-skilled workers in the United States, Europe, Middle East and Asia, with overseas foreign remittances of cUS22b, or 9% of GDP, and forecast to grow by 5% in 2013).

Economic growth is expected to remain relatively robust going forward (real GDP growth in 2013: 7% and 5.6%, 2014: 6% and 5.2% for Philippines and Indonesia, respectively, as per UBS forecasts). In the case of Indonesia, the economy risks over-heating, with the current account deficit and currency weakness manifestations of this. We believe that continued interest rate increases and fiscal tightening measures are necessary to prevent a further deterioration in the country's position. As of August, currency reserves cover of imports and short-term debt had fallen to 4.7 months. These tightening measures will undoubtedly have a negative short-term impact on growth prospects, and we also remain wary of leveraged and cyclical companies in this market.

In comparison with the Rupiah, which is likely to see more weakness, at least in the near-term, the outlook for the Peso appears more fundamentally robust, reflecting Philippines' economic position (low inflation, low levels of indebtedness, modest fiscal deficit and current account surplus).

Industry / stocks

- A number of family controlled listed companies in the Philippines have Family Constitutions which set out the terms for family involvement, voting, ownership and other governance related issues.
- 75% of Filipinos do not own a home, and the government has estimated that there will be a shortfall of 2.26m housing units between 2012 and 2016.
- Despite recent increases, the average value of land and residential units in the Philippines is 64% and 43% below pre Asian Financial Crisis (1997) levels, and affordability is at an all-time high.
- There are c2000 modern retail outlets (hypermarket, supermarket, department and convenience stores) in the entire Philippines.
- As per capita GDP increases from USD2000-3000 to 5000, the number of banking products per customer increases from 2-3 to 8-9.
- As is the case in Indonesia, a number of industries in the Philippines are dominated by a small number of large players – e.g. cement, organised retail, property development.
- Per capita consumption of chicken in Indonesia is 6.1 kg annually, 25% lower than in Thailand, 50% lower than in China and 1/7th that in Malaysia.
- Despite their close proximity and shared history, there is “a lot of difference” between business cultures in Malaysia (“no money, no talk”) and Indonesia (“no friend, no talk”).
- 50% of Indonesia’s energy requirements are currently sourced from oil and the government targets a decrease to 40% by 2020, with coal and natural gas targeted to increase their share.
- The investment yield on a high end apartment in Jakarta, if purchased 3 years ago, is 18%; the same apartment if purchased today would enjoy an investment yield of 8%.

The portfolio has a number of investments in Indonesia (banking, consumer and property related), and we are also closely monitoring market volatility for potential investment opportunities in the Philippines.

Lastly, we would highlight the following by way of valuation comments, which readers may find interesting:-

Asia vs. non-Asia

- The market capitalisation of CBA is US$ 110 billion. This is roughly equal to 50% of the market capitalisation of the biggest bank in China; or equivalent to the market capitalisation of the top 4 banks in Indonesia and Thailand combined; or equivalent to the entire market capitalisation of the Indian banking sector.

- The value ascribed to Seek’s recruitment business ranges from US$ 1-2 billion (being the high/low of broker valuations). In comparison, the #1 Chinese employment site has a market capitalisation of US$2 billion, the #1 Indian job site c550 million, and the # 1 ASEAN site c450 million.

Intra-Asia

- The market capitalisation of China’s largest insurer is US$75 billion. The market cap of Asia’s largest life insurer AIA is US$57 billion. The value ascribed to the # 2 and 3 life insurers (combined) in India (with over 30% private and 13% overall market share) is 8-10 billion (taking an average of broker valuations).

- Korean retailers trade on 9-10x forward earnings, Chinese retailers 11x, whilst South East Asian retailers trade on 20-22x forward earnings.

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Outlook

Relative to those in the developed world, it seems likely that Asian stock markets will remain weak, if normalisation occurs in world monetary policy. However, we remain sceptical that democratically elected western governments will have the political will to curtail quantitative easing (QE) in a meaningful way. More likely, is that while QE is coming to an end, it will be a slow and very gradual development. Furthermore, its benefit to date has been highly questionable, with key American economic statistics remaining subdued and interest rates increasing (the US 10 year treasury bond yield has actually risen from 1.39% to 2.65% since July 2012). Unless some of these factors change, it seems unlikely that the US stock-market can continue to perform, especially with American corporate profits as a percentage of GDP at a near 50 year high (around 12.5%). Lastly it is worth mentioning that the concentration of American household income, in the hands of the rich, is at a level not seen since 1928. This is a timely reminder of who really benefits when financial assets boom, as they have done in recent years, and when the economy does not. Financial inequality is very evident in developed economies as it is in the emerging markets.

From an emerging market perspective, we see more risk in Eastern Europe, than in Asia. Nevertheless, in certain Asian markets, risks have increased. Indeed, liquidity has tightened and interest rates increased as currencies have depreciated. Most of the more serious risks are in ASEAN countries and India, although it is worth highlighting that the ASEAN external debt to GDP ratio of 30% is well below the 1998 Asian crisis level of 100% (source CLSA). That acknowledged, some Asian countries have seen excessive credit growth (relative to GDP) and an increase in financial sector leverage in recent times. This associated with the fact that many countries in the region remain export dependent, has made investors much more cautious. With structural imbalances continuing to exist, it seems likely the Asian adjustment process will be ongoing. Unless world economic activity surprises on the upside, this will impact on economic activity in the region.

As such, we remain a little cautious in the near term, with an added focus on risk. While we try to control this at a macro level, as much emphasis is placed on the micro level, with the average overall net debt to equity ratio on the entire portfolio currently being “zero”. Fortunately, valuations in Asia remain reasonable and it is still possible to find attractive investments, selling at sensible price levels.

Portfolio Characteristics

	Portfolio	Benchmark	Variance
Number of Stocks	45	603	558
Beta	0.87	1.00	-0.13
P/E (X)	13	11.2	1.8
Yield (%)	2.7	2.7	0.0
P/B (X)	2.0	1.7	0.3
Historical EPSg(%)	10.4	7.6	2.8
Forecast EPSg(%)	8.3	11.1	-2.8
Return on equity (%)	16	15.1	0.9
Dividend Cover (x)	2.9	3.3	-0.4
Net Debt/Equity (%)	0	32	-32

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