

# CI ASIAN TIGER FUND QUARTERLY REPORT



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

## DECEMBER 2008

*At the beginning of anything out of the ordinary, the mass of people always dislike it ... Mao Zedong*

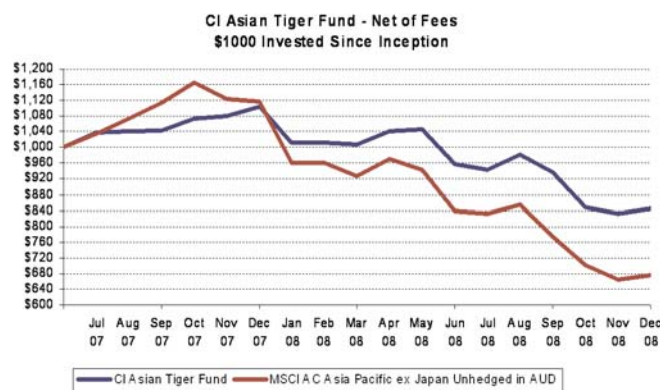
*Given careful attention, any activity may become a window on the universe and a doorway to understanding ... Buddhist saying*  
*Adversity is the foundation of virtue ... Japanese proverb*

*Yesterday is a dream, tomorrow but a vision. But today well lived makes every yesterday a dream of happiness and every tomorrow a vision of hope.*  
*Look well, therefore to this day ... Sanskrit proverb*

### PORTFOLIO PERFORMANCE - GROSS

	PORTFOLIO	BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	-9.87%	-12.91%	3.04%
ROLLING 6 MONTHS	-11.58%	-19.50%	7.92%
ROLLING 1 YEAR	-23.22%	-39.46%	16.24%
SINCE INCEPTION*	-10.37%	-22.95%	12.58%
SINCE INCEPTION^	-15.18%	-32.42%	17.24%

\* Annualised  
^ Cumulative (2 July 2007)



Reflecting on the CI Asian Tiger Fund's performance in 2008, does not give cause for much celebration, at least in absolute terms. While the relative performance figures were more credible, this continues to seem like a "poor second prize". Throughout the year, the Fund has maintained a relatively defensive structure, reflecting the challenging economic and political circumstances, in many of the markets in which it can invest.

In the December quarter, the CI Asian Tiger Fund fell 9.87%, while for calendar year 2008 it was down 23.22%. The respective numbers from the MSCI AC Asia Pacific ex Japan index were -12.91% and -39.46%. The performances from the individual Asia Pacific markets in US\$ and A\$ terms over calendar 2008 are highlighted in the table below:-

Price Index 31/12/08	Market Value (Mil) US\$	Market	Index Change (US\$) %	Index Change (A\$) %
662.53	692.9	Australia	-55.39	-43.81
71.88	2,035.4	China	-55.93	-44.50
905.24	784.0	Hong Kong	-50.77	-38.00
327.83	628.3	India	-66.34	-57.60
17.85	94.6	Indonesia	-57.54	-46.52
295.77	3,257.4	Japan	-27.29	-8.43
305.74	186.5	Malaysia	-41.79	-26.69
221.06	23.9	New Zealand	-50.47	-37.62
29.57	17.7	Pakistan	-70.58	-62.94
239.58	50.3	Philippines	-53.28	-41.28
361.28	202.3	Singapore	-52.05	-39.61
236.20	464.6	South Korea	-57.01	-45.86
34.83	384.3	Taiwan	-48.02	-34.77
84.91	101.9	Thailand	-48.72	-35.42

Source: Factset

During 2008, all markets in the Asia Pacific region declined significantly, with the four worst, in US\$ terms, being Pakistan, India, Indonesia and South Korea and the four best in US\$ terms being Japan, Malaysia, Taiwan and Thailand. Overall, the performance of many Asia Pacific markets were materially worse than the world market which fell 45.27% in US\$ terms last year.

The reasons for the material decline in world stock markets emanated from the world credit crisis which commenced in the third quarter of 2007. While the crisis began in the asset backed securities market in the USA, by the third quarter of 2008, it had fully spread to a number of large banks and insurance companies and had become global in nature. Bankruptcies (eg Lehman Brothers), bailouts (eg Fannie Mae/Freddie Mac/AIG) and bank recapitalizations were the "order of the day" for much of the second half of 2008. Markets generally recovered from their lows at the end of the year aided by central banks around the world cutting interest rates and announcing packages to stimulate their economies. As we move into the first quarter of 2009, global stock markets seem to be at an inflection point, with negative near term news flow battling against more favourable long term investment criteria.

Another major "swing factor" impacting on the performance of the CI Asian Tiger Fund during 2008 was the A\$. Having closed at a A\$/US\$ rate of 0.88 on 31/12/07, the A\$ ended the year at 0.70 for a decline of 20.4% over the year. The A\$ also weakened against Asian currencies, which enhanced the Fund's return in absolute, but not relative terms. The main reason for the decline in the A\$ was the precipitous decline in commodity prices during 2008, on the prospect of a recession in the USA, Europe and Japan in 2009 and much slower growth in emerging markets.

With the prospect of a recession in the USA, Europe and Japan in 2009, growth projections for the Asia Pacific region have been materially lowered for the current year. Indeed, more developed economies within the region like Japan, South Korea, Hong Kong and Singapore are also likely to experience recessions. That acknowledged, most others will see positive economic growth, albeit at more moderate levels, with markedly reduced inflationary expectations, making the news "not all bad".

	GDP (Est)		CPI (Est)	
	2008	2009	2008	2009
Australia	2.4%	1.0%	4.2%	3.2%
China	9.6%	7.5%	6.1%	1.0%
Hong Kong	2.7%	-0.2%	4.5%	3.3%
India	6.5%	6.0%	8.3%	6.5%
Indonesia	5.8%	3.0%	10.5%	7.8%
Japan	0.2%	-0.9%	1.4%	-0.3%
Malaysia	5.4%	0.0%	5.7%	0.9%
New Zealand	0.6%	0.3%	4.2%	3.2%
Philippines	4.5%	1.8%	9.4%	3.0%
Singapore	2.2%	-1.8%	6.0%	1.6%
South Korea	3.9%	3.0%	4.9%	4.0%
Taiwan	1.7%	1.6%	3.7%	0.4%
Thailand	4.5%	1.8%	5.7%	0.7%

Source: UBS

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Overall, GDP growth in Asia is likely to moderate from around 6.8% in 2008 to about 4.4% in 2009, while inflationary expectations will likely decline from 6.5% to approximately 2.9% over the two periods in question.

Against this background many markets in Asia have been substantially derated, a point well highlighted by the following statistics:-

	P/E (Est)		P/BV (Est)	
	2008	2009	2008	2009
Asia Ex Japan	8.8x	9.5x	1.2x	1.1x
China	9.8x	9.6x	1.7x	1.5x
Hong Kong	11.6x	11.7x	0.9x	0.9x
India	9.6x	9.8x	1.8x	1.6x
Indonesia	7.3x	9.0x	2.1x	1.9x
Malaysia	10.6x	12.4x	1.4x	1.2x
Philippines	10.8x	11.3x	1.3x	1.2x
Singapore	8.7x	9.6x	1.1x	1.0x
South Korea	7.3x	10.9x	1.0x	0.9x
Taiwan	12.3x	18.7x	1.2x	1.2x
Thailand	6.2x	7.9x	1.0x	1.0x

Source: UBS

Interestingly, many of these markets are now trading either below, at, or close to, book value, which in our opinion, materially strengthens their valuation attractions at current levels. From a longer term perspective, it is also worth pointing out that Asia accounts for 49.2% of the world's population, 25.9% of its GDP but accounts for only 19.2% of the MSCI Global Index. This is unlikely to be the situation in the years to come, when we would expect Asian markets to account for a much larger percentage of the value, resulting from both economic and demographic growth drivers.

Region	Asia in the World 2008		Dec 2008 Market Cap, % MSCI
	Population % total	GDP % total	
North America	5.1%	28.9%	49.0%
Developed Europe	7.7%	28.4%	27.6%
Asia	49.2%	25.9%	19.2%
Australia	0.3%	1.4%	2.3%
China	19.9%	7.6%	1.8%
Japan	1.9%	10.2%	10.3%
EMEA	4.9%	6.3%	2.2%
LatAm	6.9%	5.3%	2.1%
Others	26.2%	5.0%	0.0%
Global	100.0%	100.0%	100%

Source: JP Morgan

Indeed, many Asian markets remain very small with Malaysia's market value being US\$186.5bn, Thailand's US\$101.9bn and markets like Indonesia and the Philippines even smaller, notwithstanding their huge populations. In contrast, most of the stocks that make up the Dow Jones industrial average are huge. For example, Exxon Mobil has a market value of US\$415bn, Wal-Mart US\$221bn, Microsoft US\$182bn, General Electric US\$174bn, Johnson and Johnson US\$166bn and Coca Cola US\$105bn. Other large individual companies in Europe and Japan also "dwarf" entire Asian emerging markets in terms of size.

The other interesting feature about many parts of Asia is the "lack of leverage". A good example of this is the CI Asian Tiger Fund's own portfolio which currently comprises of 41 stocks. Adjusting for the 7 banking and insurance stocks held, there are 34 stocks held of which about 21 or nearly 62% have "cash at bank" which in some cases is very significant, no debt or

very minimal debt. Overall, the CI Asian Tiger Fund has an average net debt to equity ratio of just 10%.

Since the start of calendar 2009, markets have generally performed better and there is much debate of whether this is a "rally in a bear market" or something different. From a timing perspective, these types of questions are also difficult to answer but from a fundamental perspective, we believe Asian markets are now down to levels that provide much more attractive long term investment opportunities. That said, markets are likely to have to absorb a lot of poor economic news, earning cuts and further hedge fund selling as 2009 progresses and may well move lower before they move higher. In short, there is more bad news to come and investment should be structured accordingly. It also seems likely that large parts of the developed world will experience a "generational shift" in attitudes towards savings, debt and consumption. With interest rates unable to go much lower and tax rates that are likely to increase over time, economic growth and corporate profitability have to be negatively impacted. Asia will not be immune from this process and investors should maintain realistic expectations about the likely investment returns available in this climate, as it will inevitably take time to unfold.

Against this background, the CI Asian Tiger Fund's structure will remain "relatively defensive". That acknowledged, with many companies now selling at much more attractive price levels, we will continue to look for investment opportunities, taking into consideration the uncertain global outlook. We believe the Fund sells on attractive fundamentals, with the latest details being as follows:-

P/E Ratio	8.2x
Yield	4.8%
Price/Book	1.5x
EV/EBIT	6.0x
Historic Earnings Growth	19.2%
Forecast Earnings Growth	7.3%
ROE	19.0%
Dividend Cover	2.5x
Debt/Equity Ratio	10.0%

Source: UBS

From an asset allocation (industrial and geographic) perspective, there have been no significant changes in the CI Asian Tiger Fund's structure over the last quarter. As at 2/1/09, the Fund had a cash position of just over 13%. Notwithstanding the near term challenges Asia faces, because of the financial discipline and high savings rates of individuals, companies and governments throughout the region, balance sheets remain strong. This leaves them well placed to "navigate the current storm". Rising standards of living, urbanization and favourable demographics all point to a brighter future.

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