

CI ASIAN TIGER FUND QUARTERLY REPORT



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

JUNE 2008

"Not everything that can be counted counts, not everything that counts can be counted" Einstein

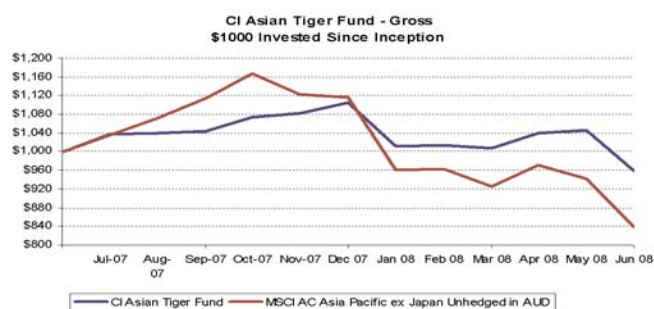
"To every human problem there is an easy solution that is neat, plausible and wrong" HL Menchen

"As I grow older, I pay less attention to what men say. I just watch what they do". Andrew Carnegie

PORTFOLIO PERFORMANCE

	PORTFOLIO	BENCHMARK	VALUE ADDED
ROLLING 1 MONTH	-8.33%	-10.92%	2.59%
ROLLING 3 MONTHS	-4.74%	-9.38%	4.64%
ROLLING 6 MONTHS	-13.17%	-24.79%	11.62%
SINCE INCEPTION*	-4.07%	-16.05%	11.98%
SINCE INCEPTION^	-4.07%	-16.05%	11.98%

* Annualised
^ Cumulative (2 July 2007)



The CI Asian Tiger Fund commenced trading on 2 July 2007 and looking back over the period, it could not have experienced a more challenging "first year". Overall, the performance was disappointing with the original \$1 units falling to \$0.9390 on 30 Jun 2008 or 4.07%. That said, and on a more positive note, the MSCI Asia Pacific index ex Japan recorded a fall of 16.05 % over the same period of time, resulting in the Fund outperforming its benchmark.

The reasons for the difficult environment have been well documented in the financial press and elsewhere. Suffice to say, the global "credit bubble" which manifested itself in the "sub prime crisis", along with substantially higher oil prices and their associated economic impact, have been the main factors. Whether or not the USA experiences a recession in the next 12 months remains a much debated topic, but arguably many industries in that country such as airlines, automotive and housing are already in recession. Other industries connected to the "consumer" face a precarious near term future, while the country's banking industry will take time to recover.

We do not subscribe to the view that Asia's economic progress and in particular that of China can "decouple" from that of the rest of the world and in particular the USA. America will remain an important destination for Asian exports, notwithstanding the growth in "intra Asian" regional trade. If Asian export growth slows over the next 6-12 months, as we would expect, this in turn will have a likely negative impact on investment and consumption in the region, leading to weaker economic growth and corporate profits. At the same time, most Asian central banks are starting to tighten monetary policy, as inflation rates in the region have already increased substantially this year (see table below). Clearly strong oil and raw material prices, the removal or partial

removal of subsidies (implicit or otherwise) in countries like China, India, Malaysia and Thailand and higher labour costs are all contributing to higher inflation levels. Government spending in the region, especially in countries like China, should continue at good levels especially on infrastructure development projects. From a structural standpoint and over the longer term, we believe that consumption in Asia will comprise a greater proportion to Asian GDP growth than it currently does and have factored this trend into the CI Asian Tiger Fund's composition.

Country	CPI		Ten Year Bond Yield (Average)	
	2007	2008	2007	2008
Australia	2.3%	4.0%	6.33%	6.00%
Korea	2.5%	4.8%	5.78%	5.80%
Taiwan	1.8%	3.1%	2.58%	2.50%
China	4.8%	6.5%	4.15%	4.70%
Hong Kong	2.0%	4.4%	3.44%	3.00%
India	6.2%	5.5%	7.79%	8.75%
Thailand	2.2%	7.4%	4.96%	5.00%
Malaysia	2.0%	5.7%	4.13%	4.20%
Philippines	2.8%	8.0%	6.58%	9.00%
Indonesia	6.4%	10.6%	10.02%	12.00%
Singapore	2.1%	6.0%	2.68%	3.60%
New Zealand	2.4%	3.1%	6.60%	6.00%
Japan	0.0%	1.4%	1.70%	1.52%

Source: UBS

As the above table highlights, real interest rates in many parts of Asia are negative, which implies, along with the previous comments, that monetary policy across the region should remain "tight". Indeed, with oil at current levels inflation may well exceed the levels above. Oil and raw material prices remain the most important influences, currently facing Asian economies.

All up, while growth is expected to moderate and inflation remains an issue in the near term, Asia is fundamentally much better placed to handle these issues than it was in the 1998 Asian crisis. Many countries in the region like China, Taiwan, Malaysia and Singapore have substantial current account surpluses, savings ratios across the region are generally high and many companies have little or no debt.

In addition to economic factors, it is important to monitor political developments around the region. With this in mind, 2007/2008 has been an interesting year. With some of the more important events summarized as follows:-

- The election victory of the People's Power Party or PPP led by Samak Sundaravej in Thailand in December 2007.
- The win of the South Korea Presidential election by the Grand National Party (GNP) whose leader is Lee Myung-Bak (48.7% of the votes).
- The Malaysian election in March 2008 which saw the ruling coalition party of the Barisan Nasional (led by Abdullah Badawi) returned to

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government, albeit with a substantially reduced majority (140 seats in 2008 v 198 seats in 2004 out of a total of 222 seats).

- The South Korean general election held in March 2008, which was won by the GNP (158 seats out of 299 seats).
- The Nationalist or Kuomintang party election victory in Taiwan in March 2008. The party is lead by Dr Ma Ying-Jeou, who won 58% of the vote.

Worth highlighting is that the political environment in Asia has been "volatile" in the past and seems likely to remain so in the future. Current examples would include:-

- Ongoing turmoil in Thailand with public protests, lead by the People's Alliance for Democracy (PAD) against Prime Minister Samak Sundaravej and the People's Power Party. Central to these and other issues in Thailand is a struggle between traditional Thai loyalists and new political elites.
- Pressure is growing on Malaysian Prime Minister Abdullah Badawi. This stems from leadership issues within his own party (UNMO leads the Barisan Nasional coalition) and the challenge of opposition leader Anwar Ibrahim. Short term, this implies political uncertainty for Malaysia but longer term any changes/reform to the country's New Economic Policy (NEP) has to be a positive, should they occur. The NEP was established years ago and is an affirmative action plan favouring the majority Malay community.
- World pressure on China over recent issues in Tibet together with the ever present issue of Taiwan.
- India needs to hold general elections by May 2009. The Indian National Congress, which is the dominant party within the ruling United Progressive Alliance, is currently in government. The main opposition party is the Bharatiya Janata Party (BJP). There is a real chance that neither party will win an election outright and have to depend on coalition parties (populist and left wing?) to form government.
- The continued turbulence in countries like Pakistan and Sri Lanka.

These type of things highlight the importance of diversification, when investing in the Asia Pacific region.

The above acknowledged, many of these issues have been around for some time and have not stopped the continuance of economic progress in perhaps the most dynamic region of the world. We remain very optimistic about Asia and its ability to "grapple" with the main issues it faces. Furthermore, the weakness in Asian stock markets (see table below), which in many instances have fallen much further than their counterparts in North America, Europe and Japan, has now made many look fundamentally attractive (see later table) from a longer term perspective.

	Stockmarket change from 29/6/07-30/6/08	A\$ change v local currency 29/6/07-30/6/08	Total change in A\$ 29/6/07-30/6/08
ASX all ords	-15.4%	N/A	-15.4%
Korea KOPSI	-3.9%	+28%	-31.9%
Taiwan TAIEX	-15.3%	+4.1%	-19.4%
China Shanghai SE	-28.3%	+1.7%	-30%
Hang Seng	U/C	+12.8%	-12.8%
India BSE 100	-0.003%	+19.3%	-19.3%
Thailand SET	-0.01%	+9.5%	-9.51%
Malaysia KLSE	-12.4%	+7.1%	-19.5%
Philippines PSE	-32.9%	+9.6%	-42.5%
Indonesia JSX	+0.004%	+15.2%	-15.1%
FT Singapore Straits Times	-14.2%	U/C	-14.2%
New Zealand NZSX	-24.7%	+14.5%	-39.2%
Japan Nikkei	-25.6%	-2.9%	-22.7%
Dow Jones 30	-15.3%	+12.9%	-28.2%

Source: Cooper Investors

As can be see from the table, returns to Australian investors have been negatively impacted by the strong growth of the Australian dollar (A\$), although the CI Asian Tiger Fund has the ability to hedge up to 30% of its international exposure. That said, it can be both very difficult and expensive to hedge currency in Asia and for this reason, coupled with the belief that a number of Asian currencies are undervalued, the Fund remains totally un-hedged. Finally, the A\$ remains buoyant on the back of record commodity prices, which is a situation that is unlikely to prevail for ever. "Reversion to the mean" has been a common trait in history. Interestingly, the best three performing markets in A\$ terms over this period were Thailand, Hong Kong and Singapore and the worst the Philippines, New Zealand and South Korea.

Following the correction in many Asian stock markets, valuation criteria are starting to look a lot more attractive as the table below highlights.

Country	P/E Ratio		Dividend Yield	RoE
	2007	2008E	2008 E	2008 E
Australia	14.5x	13.3 x	4.7%	16.6%
South Korea	12.4x	10.7 x	1.7%	14.0%
Taiwan	13.0x	12.6 x	4.9%	13.9%
China	16.0x	14.0 x	2.8%	17.5%
Hong Kong	11.7 x	15.8 x	3.3%	10.2%
India	17.3x	14.7 x	1.4%	19.9%
Thailand	12.8x	10.9 x	3.8%	17.8%
Malaysia	13.7 x	12.6 x	3.5%	15.2%
Philippines	12.6x	11.6 x	5.0%	15.7%
Indonesia	16.2x	14.0 x	3.1%	28.7%
Singapore	13.3 x	13.4 x	4.0%	13.3%

Source: JP Morgan

Notwithstanding the above, profit margins around the world remain at elevated levels compared to history. If these "contract" on slower world economic growth and risk aversion continues on the back of higher inflation/interest rates, then investors will be more conservative about the P/E multiples they assign to companies.

Turning to the current CI Asian Tiger Fund portfolio - currently, the Fund has 39 stocks but out of the top 100 companies in the MSCI Asia Pacific ex-Japan index, ranked by market capitalization, the CI Asian Tiger Fund only has 6 investments. Interestingly, of the top 20 companies in this index, 9 or some 45% are Australian. Many of the Fund's investments are in "mid cap stocks" which we believe look attractive on valuation criteria and where we feel we have an even better chance of developing a "dialogue with management". From a fundamental standpoint, the Fund's portfolio currently sells on the following valuation criteria:-

	Portfolio	Benchmark
P/E	12.9	13.8
Yield	2.8	3.3
Price / Book	2.1	2.2
EV/EBIT	10.6	12.1
Historic Earnings Growth	12.0	14.8
Forecast Earnings Growth	14.0	13.4
Forecast Dividend Growth	0.4	9.1
Return on Equity	18.4	18.3
Dividend Cover	2.7	2.2
Debt/Equity Ratio	4	27

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From an industry perspective, the Fund is most overweight in the retailing and food beverage/tobacco sectors. In contrast, it is most underweight in energy and semi-conductors/semi-conductor equipment. That said, the Fund's underweight position in energy is mitigated to the extent that it is overweight materials, with stocks such as BHP, Rio and Avoca (the Fund has a positive outlook in respect of the gold price). From an individual stock perspective, the Fund's most overweight stock positions as at 30/6/08 were:-

Standard Chartered Bank

Avoca Resources

Hong Leong Financial

Siam Makro

Baillie Gifford Japan Trust

Jardine Strategic

Samchully

Aeon Co

Dah Sing Financial

Vitasoy International

When the Fund was initiated, both the Chinese and India market were trading on very demanding valuations. Since then both markets have fallen substantially from their peak levels, eg China has fallen 55% and India 39%. As a result of this, it is expected that the CI Asian Tiger Fund will progressively, over the next 6-12 months, look for opportunities to increase its exposure to these markets. Indeed, following a trip to Hong Kong in June 2008, this process has already started.

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