

CI ASIAN TIGER FUND QUARTERLY REPORT



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

JUNE 2009

The foolish reject what they see, not what they think, the wise reject what they think, not what they see...Huang Po

He who learns but does not think, is lost! He who thinks but does not learn is in great danger ...Confucius

It is not the knowing that is difficult, but the doing...Chinese Proverb

PORTFOLIO PERFORMANCE - GROSS

	PORTFOLIO	BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	12.38%	14.36%	-1.98%
ROLLING 6 MONTHS	11.65%	14.71%	-3.06%
ROLLING 1 YEAR	-1.27%	-7.67%	6.40%
SINCE INCEPTION*	-2.68%	-11.96%	9.28%
SINCE INCEPTION^	-5.29%	-22.48%	17.19%

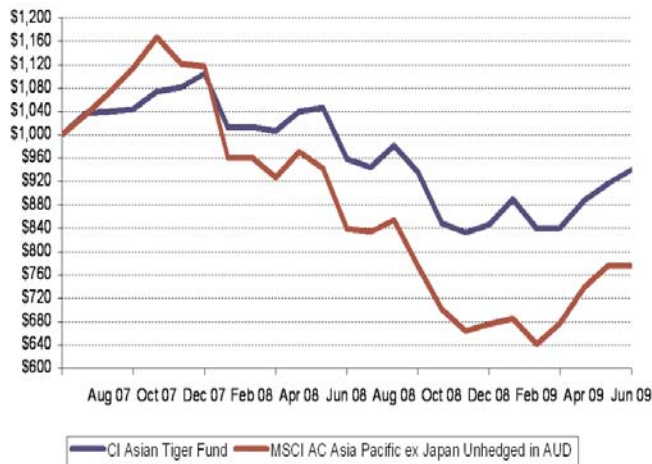
* Annualised
^ Cumulative (2 July 2007)

From an industry perspective, the Fund remains most overweight in the consumer discretionary, consumer staples and healthcare sectors and most underweight in financials and information technology.

While not purporting to be economists, we believe that from an economic perspective, the worst of the global recession may well be behind us. What is considerably more uncertain is the timing and extent of any recovery and whether we return to the levels of growth seen earlier this decade, which seems highly unlikely

As the table below illustrates, stock markets around the world have continued to recover rapidly over the June quarter, fueled by substantial global liquidity and falling risk aversion. The CBOE Market Volatility Index (VIX), which is one measure of risk aversion, fell below 30 in the quarter before closing at 26.35, a level not previously seen since last September. Markets, at current levels, arguably seem to be indicating something of a "V shaped" recovery

CI Asian Tiger Fund - Net of Fees
\$1000 Invested Since Inception



The CI Asian Tiger Fund, as can be seen from the above table, lagged the market over the last three months, reflecting its defensive positioning. That acknowledged, over the 12 months to the 30/6/09, its performance relative to its benchmark was a more credible +6.4%

One "headwind" the Fund's absolute performance has had to contend with over the last quarter has been the Australian dollar. This has risen from 70¢ against the US dollar on the 1/4/2009 to 81¢ on the 30/6/2009 (+15.7%) and has also been strong against Asian currencies. We believe for the strength in the Australian dollar to continue much above current levels, the world economic recovery will have to "gather momentum" with positive implications for commodity prices.

In analysing the Fund's geographical and industrial exposure there have been a few "modest" changes over the quarter. Following new capital inflows, we took the opportunity to increase modestly our "overweighting" in HK/China whilst reducing our "overweight" position in Thailand. By geography, the Fund's greatest weighting remains in HK/China, followed by Australia, Malaysia, Japan, Thailand and Korea.

COUNTRY	PERFORMANCE OVER THE JUNE QUARTER IN US DOLLARS
Australia	32.46%
China	33.19%
Hong Kong	34.15%
India	66.91%
Indonesia	59.60%
Japan	18.09%
Malaysia	28.86%
New Zealand	20.33%
Philippines	22.00%
Singapore	48.89%
South Korea	27.39%
Taiwan	27.54%
Thailand	45.09%
MSCI World	22.26%

In contrast, the prospect of huge debt issuance programs by governments around the world, higher commodity prices (oil is up 44% in the June quarter), and fears that "loose monetary policy" may rekindle inflation, as well as arguably some shift away from "safe assets" into riskier ones, have adversely impacted on bond markets over the last three months:-

YIELD ON 10 YEAR GOVERNMENT BONDS		
	1/4/2009	30/6/2009
Germany	2.99%	3.32%
United Kingdom	3.13%	3.67%
USA	2.66%	3.53%
Japan	1.34%	1.36%
Australia	4.40%	5.64%

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While the economic recovery in countries like China appears genuine, its market, like so many emerging markets, is still dependent on exports to the West. The same recovery cannot be said for other more export orientated Asian countries, such as Hong Kong, Japan, Singapore and Korea. Many developed markets around the world have significant issues such large fiscal deficits, under-capitalised financial sectors, over indebted borrowers, low saving rates and rising unemployment. This implies to us that there is unlikely to be a 'quick fix' and that global growth could remain 'sub trend' for a number of years. This will undoubtedly have flow through implications on the Asian region, by nature of trade flows, both external and intra-region. While prospects for Asia clearly look preferable to other parts of the world, we would not subscribe to the decoupling theory, although the recent economic resilience of the Chinese, Indian and Indonesian economies has been remarkable.

Worth highlighting at this juncture are Professor Nouriel Roubini's comments made in an article in Forbes magazine recently that: "Finally concerns about medium-term fiscal sustainability, and about the risk that monetisation of fiscal deficits will eventually lead to inflationary pressures after two years of deflationary pressures, could lead to increases in nominal and real interest rates on government bonds, thus crowding out consumption, capital expenditure and a tentative housing recovery." We have some sympathy with this view.

This "begs the question" whether the current bounce in world equity markets could be just a "rally in a bear market" and that the recovery or durability of any economic recovery may be short lived. Candidly we don't profess to know other than to observe that Japan is still "grappling with problems associated with the 1990's" today, but then again perhaps things will be "different this time!" Taking into consideration all these factors, the Fund continues to hold around 13% in cash and remains defensively invested in companies it sees as having good management, attractive fundamentals and most importantly strong balance sheets (see table below for portfolio details relative to the market) . As such we do not make stock market forecasts, focusing our attention on specific industries and stocks which we think look attractive, while trying to incorporate a "margin of safety". Lastly, the Fund continues to hold just under a 4% weighting in Australian gold stocks which is held as an "insurance policy" for a variety of factors, including "western policy makers" making unsound economic decisions.

	INITIAL PORTFOLIO	BENCHMARK	INITIAL BMARK
Tracking Error	8.52		
Beta	0.69	1.00	-0.31
Number of Stocks	40	618	40 ex 618
Percentage of Portfolio in Cash	13.00		
AGGREGATE STATISTICS: VALUE			
P/E	11.4	15.4	-4.0
Yield	3.3	3.2	0.1
Price/Book	1.2	1.6	-0.4
EV/EBIT	7.6	12.8	-5.2
GROWTH			
Historic Earnings Growth	8.8	3.6	5.2
Forecast Earnings Growth	6.4	0.3	6.1
Forecast Dividend Growth	-5.8	-3.3	-2.5
QUALITY			
Return on Equity	10.2	10.4	-0.1
Dividend Cover	2.6	2.0	0.6
Debt/Equity Ratio	-13	32	-45

While the tracking error on the portfolio is quite high, we would highlight that the Beta at 0.69 is low. In some ways the "high" tracking error reflects the Fund's cash weighting, which has no correlation to the market.

Asia, as we have commented on in previous reports, will be aided in its recovery by lower levels of debt and higher saving rates, compared with elsewhere in the world. For example, the household gross savings rate as a percentage of disposable income in 2006 was 32.9% in China and 28.7% in India compared with 5.5% in the USA. That said, adjusted for poorer healthcare and pension programs, which many Asians cannot sufficiently rely on their respective governments to provide, savings rates are not as high, as the initial numbers would suggest.

Notwithstanding the prior comments, we are of the view that the economic downturn in the Asia pacific region is cyclical rather than structural and the longer term case for investing in the region remains excellent (see previous quarterly). Valuations have risen substantially from their March 2009 lows and overpaying for stock in any market, let alone emerging markets, is something to be avoided. Furthermore Asian markets look "overbought" in the near term. Key events over forthcoming months will be the 2009 interim results season and the associated outlook statements for the remainder of the year, together with IPO issuance. We believe, in the main, that the results will still be subdued although many companies are likely to comment that "economic activity bottomed in the first quarter of 2009". We feel relatively better results will come from Chinese companies, although banking sector results in China will be more mixed, reflecting the impact of five successive rate cuts, despite very strong loan growth and good credit quality metrics. Given the China Securities Regulatory Commission (CSRC) has signaled that it will lift the moratorium on new listings imposed since September 2008, we expect new issuance to expand quite significantly going forward. While impossible to know the number of companies contemplating listing and the amount of capital to be raised, speculation has suggested RMB 100bn (US\$14.6bn) worth of deals are "in the pipeline". Worthy of note is, according to Dealogic in 2007, there were 120 mainland listings valued at \$63 bn in that year.

One of the biggest IPO's that may be seen in Asia over the next 12 months is that of AIG's largest Asian subsidiary, American International Assurances Co Ltd (AIA). AIG Tried to sell this company in a private transaction worth at US\$20 bn but without success. It is believed AIG is now contemplating an IPO of AIA that could raise US\$4 bn.

While some might see the global economic outlook as daunting and filled with uncertainty, huge opportunities still exist. Many individuals around the world and in America, such as Aristotle Onassis (Shipping), Howard Hughes (Movies/aerospace), Armand Hammer (Oil), J Paul Getty (Oil), Moses Anneberg (Media), Victor Posner (Real Estate/Investments) etc, all established their fortunes in the 1930's. Having seen the world dominated by Britain in the 19th century and America in the 20th century, we believe that the 21st century will belong to Asia and that no fewer opportunities will exist for the creation of similar fortunes.

One of the great challenges facing China (and other parts of Asia) is the adjustment process relating to lower levels of consumer expenditure in the West and, in particular, the USA. China's household consumption is only around 33% of GDP compared with 55% in Japan and 67% in the USA. Clearly more must be done to increase consumption in China e.g. expenditure

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on health, education, pensions, rural reforms (700m people impacted) etc. We believe the Chinese Government is aware of this and, indeed, many of the measures in its stimulus package are aimed at these initiatives. However, the adjustment process will take 10-15 years to have a meaningful impact. Nevertheless we have structured our portfolio to take this thematic into consideration.

Before making some brief observations on a trip we made to Japan and Korea in May, we would be remiss not to comment on the Indian general election results. This resulted in a stunning victory for the Congress led UPA which won 263 of the 543 parliamentary seats, compared with 178 in 2004. The most important aspect of this result is that the Congress led UPA will no longer be dependent on communist party support and is likely to implement reformist policies. This victory seems likely to have assumed continuity of the Nehru-Gandhi political dynasty, with Sonia Gandhi grooming her son Rahul for a future leadership role. The Indian market rose 66.91% over the quarter with the major impetus coming after the election result, making it the best performing regional stock market in the quarter. In contrast, Korea was one of the regions worst performing markets, unsettled by North Korea conducting another nuclear test on the 25/5/2009. Indonesia, the region's second best performing market in US\$ terms over the June quarter, is holding its presidential election later this month.

Finally, we highlight some of the main observations that came out of our recent overseas trip to Japan and Korea:

- Japan must hold an election before the end of September 2009
- Japan announced a Y15 tr stimulus package in May. Among other things, every person in Japan to get a minimum payment of Y12,000 (i.e. similar to Australia)
- Japanese companies are much more cautious than Korean companies
- Japanese companies appear to place more emphasis on manufacturing relative to distribution and marketing
- Japanese domestic market is much larger than Korea's with less political risk
- In Japan people are moving from the suburbs to the inner city areas with the implications being downsizing, proximity, convenience etc
- Japan continues to run a massive budget deficit (10% of GDP) and this, and demographics, are the two major issues facing the country
- Increasing the VAT from 5% to 10% could be one way of reducing the deficit
- Japanese GDP growth will be negative 7.1% in 2009 and particularly severe in the export sector. This is worse than the USA and Europe. Many people we spoke to about Japan's prospects were very subdued.
- In tough economic conditions consumers "trade down" from Japanese to Korean / Taiwanese manufactured products or even Chinese products
- Japan continues to run a trade surplus
- After China, Japan is the largest investor in the US Treasury market (Japan has Y100 tr of foreign reserves mostly in US dollars)
- The savings rate in Japan is around 10% but falling as society grows older
- The auto sector is very important to Japan (large employer) and the future for the industry is "environmentally friendly" cars
- The auto industry in Japan and Korea is well placed to benefit from the "demise" of the US manufacturers
- Tax system reform is occurring in Japan, e.g. dividends received from overseas subsidiaries to be treated as non taxable income
- Corporate governance, whilst improving, remains a real issue in Japan and Korea
- Many Japanese and Korean companies sell below NTA and have cash and investment portfolio's that amount to 10-30% of their respective market capitalisations
- Three of the big four Japanese trading banks (Mizuho/MUFG/Sumitomo Mitsui) all reported losses in 2008 with Resona the only one to record profits.
- Many Japanese companies spend 3-5% of sales on research and development
- Japanese companies are relocating manufacturing facilities overseas to reduce costs and be closer to their customers
- Stability of raw material supply (and prices) is crucial to the Japanese and Korean economies. Frequently their interests are different to China's e.g. the price of "fines" and "lump" (Japan) iron ore.
- Regionally some areas of Japan (economics/demographics) are stronger than others e.g. Okinawa.
- More M&A is being seen in Japan albeit from a "low base"
- Japan continues to age rapidly and this remains an excellent thematic, e.g. pharmacy stocks, nursing homes etc
- 80% of all soft drinks in Japan are sold from vending machines
- Huge trend towards healthy and nutritious food is occurring in Japan
- Retailers in Japan and Korea have put considerable emphasis on private label sales.
- Food safety remains of paramount importance in Japan especially in regard to imports from China.
- Industries in Japan are highly fragmented compared with Australia. For example, the top 10 pharmacy companies control just 23.3% of the market. Many industries seem ripe for consolidation.
- Korea's growth in 2009 will slow, but less so than in Japan, aided by the depreciation (until recently) of the Korean Won.
- Private sector debt in Korea is 180% of GDP. Note - household debt is 70% and corporate debt 110%. This is the same level as in the USA. People in Korea seem to "associate wealth with leverage" and interest rates remain very low.
- Government regulation/intervention in Korea in particular, industries such as utilities, is a major risk
- Korean companies are investing heavily for growth in emerging markets, especially China, but with "little payback" to date e.g. Shinsegae, Lotte, Hankook Tire etc.
- Korean companies expanding into China are pursuing a policy of "localization" which is very different to their "western counterparts". Korean companies should benefit from their "cultural similarities" and geographic proximity.
- The ROE of the Korean banking sector is currently 3.8%. This is expected to rise to 7.3% in 2010 and 12% in 2012 compared with an average of about 20% between 2004-07. Korean banks are heavily dependent on NIM's and cost savings are difficult given strong labour unions in the country. ROE's are likely to remain below historical levels. Foreign banks continue to find the local market "challenging".
- Further consolidation in the Korean banking sector looks likely over time e.g. Woori, Industrial Bank of Korea, Korea Exchange Bank and the Korea Development Bank.
- Posco has now "caught up" with the Japanese steel companies in terms of quality of steel manufactured
- Posco has set aside KRW 1.5tr to invest in mining companies and/or resource projects. The company would like to own 30% of its "inputs"

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- by 2011. Interest from Chinese, Indian, Korean companies etc in "long life high quality resource assets" will be ongoing
- Posco is concentrating on the manufacturing of 8 (flat) products only and is the lowest cost steel producer in the world
 - The major consumers of Posco's output are the auto industry (22% sales) pipe industry (12%), cold rolled steel (13%), shipbuilding industry (11%), distributor industry (7%), home appliance industries (7%), with the balance being "other"
 - Shinsegae thinks the best overseas retailers in China are Carrefour and Walmart
 - Shinsegae's private label sales equate to 19.2% of total sales. The company aims to lift this to 35% by 2012
 - The political, legal and regulatory systems are not "challenging" in Korea. There is too much "red tape", labour unions are very strong and governance remains an issue
 - In conclusion, a quote from the Financial Times on the ongoing tension between North and South Korea: "Few investors in South Korea pause to think what would happen if the regime on the north collapsed or if it made good on its warlike threats". The implication being everyone wants the "status quo" to be maintained. Some estimates suggest reunification could cost South Korea US\$2,000-3,000bn!"

The Fund currently has exposure to both Japan and Korea but has an underweight position (6.8% vs 12.8%) in the latter market against the Benchmark..

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