

CI ASIAN TIGER FUND QUARTERLY REPORT



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

MARCH 2009

	2. EXTERNAL (2009)				3. FISCAL POSITION				
	FOREIGN RESERVES (US\$ BN)		CURRENT ACCOUNT (% GDP)	EXTERNAL DEBT	FISCAL DEFICIT		PUBLIC DEBT		
	US\$ BN	% GDP	US\$ BN	% GDP	2009 E % GDP	2010E %GDP	2008E %GDP		
JAPAN	2.1010	23.3	3.8	Na	Na	-0.5	-2.5	177.6	
AUSTRALIA	31.30	12.3	-3.6	Na	Na	2.0	1.5	Na	
NEW ZEALAND	40.19	1.1	-14.1	Na	Na	1.6	3.7	Na	
CHINA	19.1909	30.7	7.6	425	9.2	2.0	0.6	24.7	
HONG KONG	57.182	38.9	9.4	Na	Na	1.1	7.5	Na	
INDIA	66.250	7.7	-2.0	228	18.4	4.3	-3.1	66.1	
INDONESIA	75.48	16.7	1.5	132	33.0	6.0	1.2	28.0	
KOREA	84.201	35.3	2.2	345	45.7	3.5	3.8	30.7	
MALAYSIA	93.89	4.4	11.2	64	26.7	1.9	-3.4	42.7	
PHILIPPINES	102.40	103.0	0.6	58	36.4	4.2	-0.2	56.3	
SINGAPORE	111.169	12.1	13.0	NA	NA	2.5	12.2	NA	
TAIWAN	120.292	121.1	8.6	64	15.7	1.0	-0.2	37.0	
THAILAND	129.111	130.0	0.3	57	20.4	3.5	-1.2	27.9	

Source: JP Morgan

Asia is a region of “savers”. Gross national savings as a % of GDP in 2006, whilst varying by country, was 43.78 in developing Asia, compared with 14.15% in the USA and a world average of 23.26% (Source: IMF). This, coupled with generally low loan to deposit ratios of Asia Pacific financial institutions, augers well for long term consumption in Asia.

- Asia has proved to be an early adapter of **technology**. For example, the leaders internationally for household broadband connection by country in the second quarter of 2008 were:
 - Monaco 100%
 - South Korea 97.17%
 - Singapore 89.65%
 - Macau 87.24%
 - Hong Kong 86.91%

In comparison, the numbers for Australia, the USA and the UK are respectively 77.67%, 67.14% and 66.60% (Source: Point Topic). In other examples, Taiwanese companies like TSMC (Chip Foundry) to Quanta (laptop maker) manufacture thousands of items essential to the global digital economy. Taiwan is also the world's largest provider of LCD monitors, cable modems, semi conductor packaging, PDA's, wireless LAN equipment etc. India has been highly successful in the software and business processing outsourcing industries with companies like Infosys, Wipro and Tata Consultancy Services now household names. Lastly, many Japanese and Korean companies (Samsung Electronics and LG Electronics) are world leaders in the global electronics industry. Many countries in Asia, like China, are likely to further grow their capabilities in technology, whether it's in telecommunications (937m speakers of Chinese globally), electronics or industrial automation (robotics) to 'value add' to basic manufacturing. Putting technology into perspective it can be argued that China was centuries ahead of Europe in the development of industries such as iron and steel, transportation and energy (canals/water mills/locks), paper and printing (Pi Sheng invented the moveable-type printing press in 1095), as it was in the development of paper money and the collection of taxation.

- **Valuations** in Asia have come back a long way as the following table highlights (weighted average):

	P/E Ratio 2009(E)	Dividend Yield 2009(E)	PBV 2009 (E)	ROE 2009(E)
Global	10.5	4.0%	1.2	13.7%
USA	13.5	3.4%	1.4	12.8%
Asia Pacific (ex Japan)	15.6	3.9%	1.4	10.8%
Australia	14.8	5.4%	1.6	11.0%

Given Asia's **superior growth profile** and generally **stronger balance sheets**, (e.g. Hong Kong's debt to equity ratio is 0.37 whilst Australia's is 0.71), we feel the above statistics favour the Asia region. Asian firms seem likely to use their strong financial position to pick up assets in North America, Europe and Australia. Indeed, Nomura Holdings has already acquired part of Lehman Brothers, Mitsubishi UFJ has bought 20% of Morgan Stanley and Chinese companies are actively looking to increase their investment in leading resource companies like Rio Tinto. While Australian dividend yields are high compared with those in Asia, economic circumstance and tax changes may alter this situation in the future. Lastly, many **Asian currencies** appear very attractive, taking a long term view.

However, valuations look a lot more attractive because Asia Pacific stock markets have fallen substantially over the last 12 months (see below). Also, further profit downgrades are possible given the current world economic crisis. That said, in many instances share prices have fallen a lot further than earnings, so a real de-rating has occurred.

The table is also a reminder that Asia has not “decoupled” from the world. (Performance in US\$).

	ONE YEAR PERFORMANCE TO 1/4/09
Australia	-49.64%
China	-27.93%
Hong Kong	-42.59%
India	-53.02%
Indonesia	-50.72%
Japan	-32.65%
Malaysia	-37.91%
New Zealand	-47.73%
Philippines	-39.92%
Singapore	-52.17%
South Korea	-48.72%
Taiwan	-45.53%
Thailand	-53.28%
Asia Pacific ex Japan	-41.41%
World	-43.05%

Source: Factset

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- **History** is another reason we have faith in Asia.

In his book "The Eastern Origins of Western Civilisation", John Hobson quotes:-

"According to Paul Bairoch, future third world (eastern) income was 220%, that of the west in 1750, 124% higher as of 1830 and 35% higher as of 1860. Western income only surpassed eastern levels as late as 1870."

Referring to world manufacturing output, the same book and author quote:-

"According to Bairoch in 1750, the west contributed about 23% while the east (including Japan) comprised about 77%. Even as late as 1830, the east produced twice that of the west and the latter probably pipped the former only as late as 1850."

Paul Bairoch (1930-1999) was one of the great post war economic historians, who specialized in global economic history, urban history and historical demography, according to Wikipedia.

The possible conclusion is that Asia's rise should not be seen as unique, but merely reflects its return to its previously pre-eminent position on the world stage.

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