

# CI ASIAN TIGER FUND QUARTERLY REPORT



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

## MARCH 2010

*“To know what is right and not to do it is the worst cowardice” ... Confucious*

*“A mind all logic is like a knife all blade. It makes the hand bleed that uses it” ... Rabindranath Tagore*

*“Strength does not come from physical capacity. Strength comes from an indomitable will” ... Mahatma Gandhi*

## Market and Fund Performance

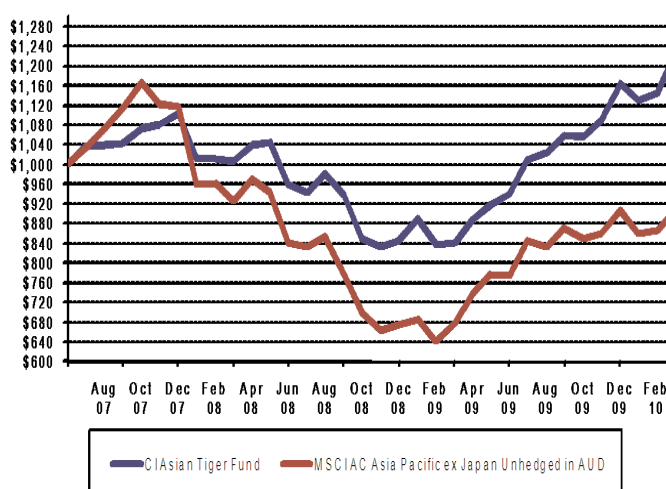
	**FUND	BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	6.51%	0.00%	6.51%
ROLLING 6 MONTHS	18.39%	4.10%	14.29%
ROLLING 1 YEAR	50.48%	33.88%	16.60%
ROLLING 2 YEAR	12.23%	-1.03%	13.26%
SINCE INCEPTION*	9.03%	-3.47%	12.50%
SINCE INCEPTION^	26.82%	-9.26%	36.08%

\*Annualised

^Cumulative (2 July 2007)

\*\* Before fees and expenses

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



Most world stock markets recorded further gains in the March quarter of 2010, although there were some notable exceptions like China. Against this background, the CI Asian Tiger Fund rose 6.51%, compared with the gain seen in its benchmark, the MSCI Asian Pacific Index, ex Japan of 0.00%. This resulted in out-performance of 6.51%.

Over the last three months, the Australian Dollar (A\$) moved higher against the Indonesian Rupiah, Japanese Yen and New Zealand Dollar, but was “generally weaker” against other Asian currencies, benefiting the Fund’s absolute performance in local currency terms as it remains totally unhedged.

### A\$ performance in % terms over the March Quarter

A\$/Chinese Renminbi	-1.1%
A\$/HK\$	-1.0%
A\$/Indonesian Rupiah	+1.4%
A\$/Indian Rupee	-2.5%
A\$/Japanese Yen	+4.7%
A\$/Korean Won	-1.8%
A\$/Malaysian Ringgit	-2.5%
A\$/New Zealand Dollar	+3.2%
A\$/Singapore Dollar	U/C
A\$/Taiwanese Dollar	-3.1%
A\$/Thai Baht	-2.9%
A\$/US\$	-1.0%

Source: Factset

Interestingly, the Reserve Bank of Australia lifted its cash rate 25 basis points to 3.75% in December 2009, to 4.00% in March 2010 and most recently to 4.25% (1/4/10). Furthermore, Australian ten year bonds (5.76%) have much better yields, than their counterparts in the countries mentioned in the adjacent table. The exceptions to this are Indonesia (8 year/9.09%) and India (7.80%), although in the latter consumer price inflation year on year to January 2010 amounted to 15%! In addition, prices of many commodities improved over the quarter with examples being oil (+9.1%) and copper (+6.6%), while BHP Billiton (in the Fund) reached agreement with

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a significant number of its Asian customers to move iron ore pricing away from the benchmark system to shorter term contracts, ie spot prices. This is significant as spot iron ore prices are around US\$150 a tonne CIF (cost, insurance and freight) compared with the last annual benchmark of US\$60 a tonne FOB (free on board)! Taken together, all these factors may have warranted a stronger A\$ performance although questions about the sustainability of the US economic recovery may have kept “sentiment in check”, while Asian currencies are generally cheap themselves.

The gold price fell 1.2% in US\$ terms over the quarter. Sentiment may have been impacted by the IMF’s announcement that it intends to sell 191 tonnes of gold “on market”. Notwithstanding this, we remain optimistic about gold, although a little surprised it has not performed better given sovereign debt issues around the world, but then inflation remains subdued (at least for the moment).

The performance of the Asia Pacific ex Japan stockmarkets, as the table below highlights, was much more subdued in the March quarter of 2010 (+1.36% in US\$ terms) compared with the December quarter of 2009 (+10.2% in US\$ terms) or indeed calendar 2009 (+79.19% in US\$ terms). After New Zealand and Taiwan, China’s was the worst performing stockmarket in the Asia Pacific region during the March quarter. Sentiment was negatively impacted by China’s decision to twice increase the proportion of deposits that the banks must hold as reserves. This rate now stands at 16.5% (large banks) and was increased to “drain liquidity” from the banking system to curb inflation and prevent the economy from “overheating”. Credit tightening measures, along with systematic risk concern, associated with the huge banking lending last year and local government debt, have caused some international investors to “shy away” from the Chinese stockmarket recently. Offsetting these factors is that bank provisioning is already high and many market observers believe that China’s total debt (central and local government) would only amount to 50-60% of GDP and is therefore “manageable”, particularly if the country continues to grow as it has done in the past. Remember also that China has a high savings ratio and substantial assets. Unfortunately, exact data is hard to obtain and following well publicised debt problems in Iceland, Dubai and most recently, Greece, investors are apprehensive. Looking at market valuation criteria, we believe a lot of these negative factors are already “priced into the Chinese stockmarket”.

### Country Performance (price index in US\$ and A\$)

	Country performance price Index % change from 31/12/09 to 31/3/10	
	US\$	A\$
Australia	+2.81%	+0.74%
China	-1.91%	-3.89%
Hong Kong	+3.72%	+1.63%
India	+3.10%	+1.02%
Indonesia	+14.33%	+12.02%
Japan	+7.25%	+5.09%
Malaysia	+10.21%	+7.99%
New Zealand	-3.17%	-5.12%
Philippines	+6.98%	+4.82%
Singapore	+0.81%	-1.22%
South Korea	+3.46%	+1.37%
Taiwan	-2.31%	-4.28%
Thailand	+10.91%	+8.68%
Asia Pacific ex Japan	+1.36%	-0.68%
World	+4.14%	+2.04%

Source: Factset

Indonesia, Thailand and Malaysia were the best performing markets and the Fund benefited from this as it is overweight in these three markets. The performance of the Thai market was aided by the country’s economic recovery and occurred despite ongoing unresolved political issues. As CLSA recently stated “the rich/poor, red/yellow, rural/urban debate will not go away quickly, but it already appears to be maturing from a personality based conflict to an ideology based one”.

### The Portfolio

Over the quarter few changes were made to the Fund’s portfolio and only one of any significance, which related to the “trimming” of a holding in the Malaysian healthcare sector.

From a geographical perspective, the Fund remains most overweight in Hong Kong/China, Malaysia and Thailand and most underweight in Australia, Taiwan, India and South Korea. Industry wise, the portfolio has a substantial bias towards consumer staples, consumer discretionary and healthcare, while being underweight

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in financials and information technology. As mentioned previously, the portfolio remains unhedged and has a cash weighting of around 8.25%.

As the table below highlights, based on forward estimates, Thailand and South Korea are Asia Pacific ex Japan's cheapest markets and Taiwan and India the region's most highly rated. Ratings accorded to China and Hong Kong have reduced recently, increasing the relative appeal of those markets.

	Price/EPS Actual*	Price/EPS Estimate	Price/ Sales	Price/ Book	Price/ CFLOW	Dividend Yield
Australia	20.0x	16.1x	2.0x	2.6x	13.0x	3.04%
China	24.0x	14.6x	2.0x	3.2x	17.3x	1.43%
Hong Kong	14.7x	13.8x	2.3x	1.8x	13.7x	2.36%
India	22.8x	18.4x	2.0x	3.6x	21.8x	0.90%
Indonesia	20.2x	15.4x	2.4x	3.9x	15.2x	1.50%
Japan	22.4x	31.5x	0.6x	1.4x	7.2x	1.93%
Malaysia	18.7x	14.8x	1.9x	2.0x	14.5x	1.94%
New Zealand	19.0x	16.1x	1.2x	1.6x	8.2x	4.78%
Philippines	17.0x	13.9x	2.0x	2.1x	9.9x	2.40%
Singapore	14.9x	15.6x	1.9x	1.7x	10.7x	2.81%
South Korea	17.5x	10.2x	0.6x	1.7x	17.6x	0.97%
Taiwan	22.3x	19.4x	1.1x	2.1x	8.2x	2.18%
Thailand	14.1x	12.1x	1.1x	1.8x	9.1x	3.08%
Asia Pacific (ex Japan)	20.1x	14.7x	1.6x	2.5x	14.7x	1.83%

\*excludes negatives

Source: Factset

Leaving aside Japan, and after India and Taiwan, Australia and New Zealand now look quite expensive relative to other markets in the region on a Price/EPS (Estimate) basis.

### Observations from CI trips - India

We undertook a two week trip to India in March 2010 and the following is a summary of the more interesting observations.

#### Overview

India is the **seventh largest country** in the **world** and the largest in Asia after China, with an estimated **population** of just under **1.2bn** in **2010**. It is also the second most populous country and the largest democracy in the world. Interestingly, the state of **Uttar Pradesh** located on the north Indian river plain, with a **population** of **166m**, would be the world's fifth most populous country, if it were a nation in its own right.

Indian **civilisation** dates back to the **Bronze Age (3000-1200BC)** and was centred around the Indus River basin, in the western part of the country. India's four major **religions** are **Hinduism, Buddhism, Janism** and **Sikhism** while **Zoroastrianism, Judaism, Christianity and Islam** all arrived in the first millennium, creating the country's diverse culture. **Hindi, spoken** by around **40%** of the **population**, is the country's principal language but some **22** official languages exist, while **English** is widely used in **business matters**.

India received its **independence** from Britain in **1947** and today consists of **28 states** and **7 union states** with a **Parliamentary system of democracy**. The Indian Parliament has a Lower House (545 members) elected by popular vote and an Upper House (245 members) with members chosen by State Assemblies. The Indian **Head of State** is the **President**, while the **Prime Minister is Head of the Government**.

The three main political parties in India are the **Congress Party** (left of centre policies), the Hindu Nationalist Party

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called the **Bharatiya Janata Party** (BJP-Liberal) and the **Communist Party**. India has been governed by the Congress Party for most of her independence however there have been a number of periods of unstable political alliances as well as relatively short ruling terms. The Congress Party, headed by Prime Minister, **Manmohan Singh**, is currently the elected government. This is Mr. Singh's second term in office and with a clear majority and increased number of Lower House seats in the 2009 elections, the Congress Party is well-positioned to continue with a number of economic and financial reforms.

The country's constitution defines India as a **sovereign socialist, secular, democratic republic**.

India has a three tier **judiciary** consisting of the Supreme Court, High Courts and Trial Courts and is judicially independent, i.e. not subject to influence from government, private sources etc

### Demographics

India is a pluralistic, multilingual and multiethnic society that has enormous diversity.

Today Indian life still centres on **agricultural life** and **associated activities** in small villages across the country. As such, around **72%** of the country's population still lives in over **600,000 villages** throughout India, while the balance of **28%** lives in **towns and cities**. 80% of India's population are Hindus while nearly 140m are Muslims, making it the world's third most populous Muslim country after Indonesia and Pakistan.

Over forthcoming decades India will enjoy a substantial **demographic dividend** as the **median age** of its population is just **25 years**. Around 31% of the population are aged 14 years and under, 64% 15-64 and 5% over 65. While India's **population growth** has slowed in recent years, it is still nearly **1.55%** per year, compared with 0.60% in China and a world average of 1.10%. Asia accounts for 60% of the world's population of 6.8bn and China and India together for 40%. **Life expectancy** in India has also risen substantially over the years and now amounts to just under 70 years, while the **literacy rate** is now 80%. Challenges still exist in education (India spends 1% of its GDP v 10% in China), healthcare and employment but the country has made huge progress in recent years.

In talking about **demographics** in India, it is important to mention **Caste**, which is the social stratification of people into various groups. Leaving aside minority groups like Muslims, it is estimated that over **50%** of India's **population** is made up of **lower castes** comprising scheduled castes (Dalit) 16%, scheduled tribes (tribal group) 7% and other backward castes 32%. This is a major **social discrimination** issue for India and while things have improved, much more work needs to be done. **Conflict** between India's **Hindu** and **Muslim** populations, **exacerbated** by recent **terrorist** attacks is another area of concern.

According to the World Bank, it is estimated that today around **42%** (504m) of India's population live **below the international poverty line** of **US\$1.25 a day**, compared with 60% in 1980. **Income inequality** is **also increasing** although by Indian standards some 300m people in its country would now be classified as middle class. Despite the fact that the Indian economy has experienced steady growth over the last two decades, the **growth** has been **uneven**. For example, growth rates in richer states like Haryana, Delhi and Gujarat have been much faster (better governance/more liberal economic policies) than in poor states like Bihar, Uttar Pradesh, Madhya Pradesh.

Today, India's **GDP per head** amounts to **US\$1,240** compared with China's of US\$4,170. Interestingly, Brazil and Russia, the two other BRIC countries, have GDP per head of US\$8,480 and US\$10,030, highlighting that India remains a very poor country. **State GDP** in India **varies significantly** with the richest being in the north, west and south and the poorest and some of the most populated states, being located in central and eastern India. Poverty (and caste) has led to violence in some areas of India with the **Naxalite issue** (far left radical communists) a

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particular concern in eastern India and, more recently, central India.

While most of India's population is rural, many people travel to major urban centres in search of work and it is estimated that some **50% of rural income is non-agricultural**. Urbanisation will continue to grow in India and by 2025, it is estimated that 35-40% of the country's population will live in cities, which are already huge. Indeed, there are already some 48 urban agglomerations with a **population** of more than **1m people**. The metropolitan areas of **Delhi (23.2m people)** and **Mumbai (22.8m people)** already **exceed the total population of Australia!**

### Economy

The Indian economy is the 12th largest in the world by nominal value and the 4th largest by purchasing power parity (PPP).

Between 1947 and 1990, India went through the **Licence Raj** period which stifled economic activity as a result of the vast array of licences, regulations and associated "red tape" that were required to establish business operations. This changed with **economic liberalisation** in **1991** and subsequent **economic reforms** and today India is one of the fastest growing economies in Asia, and in the world.

Notwithstanding the progress that has been made in recent years, the Indian **agricultural sector** still accounts for **20%** of the country's **GDP** and generates 50-55% of its employment. Furthermore, it is subject to events like the annual monsoon (June to September) which by implication makes it unpredictable, determined as it is by nature. Improving infrastructure, media and modern communications like the mobile phone (estimated 525m connections December 2009) and the internet, has and will continue to aid the development of rural India.

In contrast, the **service sector** accounts for around **60%** of **GDP** and is over three times larger than its **industrial sector**. In the last 30 years, the service sector has increased its share of GDP from 40%. Manufacturing in comparison accounts for 20% of India's GDP. This share has stayed roughly unchanged in the last 30 years.

With a large pool of low cost, well educated, English speaking labour, IT services and BPO (business Process Outsourcing) highlight what India does best and are the fastest growing part of the Indian economy. The IT sector contributed 6% of the services sector GDP as a whole. Other service industries like media, entertainment (e.g. Bollywood, cricket, etc) and tourism (2008 foreign visitor arrivals of over 5m compared with 55m for China in the previous year), have huge potential to grow. Retail is another interesting area and although an estimated **5%** of the **market** is estimated to be "**modern**" this rises to around **30%** in the country's top **10 major cities**. That said, the development of "modern" retail may be slower in India than other countries due to the **difficulty in obtaining land, its high cost and lack of associated infrastructure**. Indian consumers, while liking **brands**, are **value conscious**. Western brands tend to "work" in major metropolitan areas but not necessarily in rural India, where they have to be adapted to suit the local market. The Indian retail market is still very "generalistic", but seems likely to become more specialised in future years. **Healthcare** is another growing service industry in India and it is increasingly developing a medical tourism business on the back of a low cost, high quality reputation. In many ways, India is still a very **traditional country** with good examples being the continued widespread use of the **saris** and **bindi**. Furthermore, some market observers have suggested that 50% plus of all marriages in India still have an element of "arrangement" in them!

The key issue for India's **service sector** activities is that they do **not generate** the same level of **employment** as **manufacturing**, which India must try and develop in the years to come. The private service sector in India accounts for 33m jobs, whilst manufacturing accounts for 59m private sector jobs. In the last 16 years however, 12m of the 15m new jobs added in the private sector have come from the service sector, whilst the manufacturing sector in

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comparison has only increased by 3m. Given India's rate of population growth, she needs to generate 12-15m new jobs each year to maintain unemployment at 8.2%. Clearly, manufacturing was very important for economic development and prosperity in Britain in the 19th Century, America and Japan in the 20th Century and China today.

The public sector remains the biggest employer in India, and accounts for 180m jobs. However this figure has declined by 10m in the last 16 years.

India has a long history of producing and exporting agricultural products, e.g. pepper, cinnamon, indigo, etc., and also textiles. Today, the textile industry is the second largest employer of labour (35m) after agriculture (the two are inter-related), generates 14% of India's industrial production and provides 17% of India's export earnings. After China, India is the most significant producer of textiles and apparel in the world. This sector and the country's vibrant leather industry have sound long term prospects as does India's **automotive** sector. With respect to the latter, India has:-

- The largest 3 wheeler market in the world.
- The second largest 2 wheeler market in the world.
- The 4th largest passenger vehicle market in Asia.
- The 4th largest tractor market in the world.
- The 5th largest commercial vehicle market in the world.

Furthermore, in respect of the **two wheeler** market, the **penetration rate** is only about **51 vehicles** per **1,000 people**, while in the passenger vehicle market it is only **8 vehicles** per **1,000 people**, although this may change with the introduction of the **US\$2,500 Tata Nano car**. A thriving automotive **component** industry has also developed in recent years and exports are increasing, despite substantial competition from China.

Other industries that seem to be exhibiting good growth prospects in India are **generic pharmaceuticals** and **jewellery** industries. The Indian Government is also trying to stimulate economic development by the creation of **Special Economic Zones (SEZ)**. These were introduced in April 2000 and are deemed to be a foreign territory for the purposes of trade operations, duties and tariffs. To date, around **220** SEZs have been created.

**Steel** is another important industry in India with production of around 55.2m tonnes in 2008 (compared with China - around 500.5m tonnes) and per capita consumption remains very low by world standards. Domestic **cement** production in India in 2009 amounted to 178m tonnes and is growing at around 1.2 x GDP. Around 65% of cement production is consumed by the housing sector, 12% by the commercial sector and 23% by infrastructure programmes. India is the world's second largest cement producer but despite continued high demand, the country's per capita consumption of cement is still very low at 156kg compared with a world average of 396kg. The **natural resource industry** is also important to India with most of its domestic energy demand coming from its substantial reserves of coal (cheap, represents around 53% of energy consumption), although greater diversity is likely to be sought in future due to environmental issues. The country also has substantial reserves of iron ore, manganese, chromite and bauxite, but despite recent discoveries, is still very deficient in oil. Oil forms 31% of India's energy consumption, and 80-90% of this is imported making the country's economy very sensitive to changing energy prices. Crude oil represents 22% of India's total imports. Therefore recent large east coast gas discoveries should help India's energy's requirements and current account position. These discoveries, coupled with increased LNG imports, should also see gas share of India's energy consumption rise from the current level of 8% which is comparatively low.

The **banking industry** is very interesting in India. There are currently **27 public sector banks** in which the **Indian Government** has a **majority stake** (including India's biggest bank, the State Bank of India) and some **31 private sector banks**, with the largest being **HDFC** and **ICICI**. The public sector banks hold **75%** of the **banking sector**

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**assets**, private sector banks 18.5% and the balance is held by foreign banks. Currently there are over **50,000 bank branches** in India but most are located in large cities, urban and semi-urban areas while only a fraction (30,000) of India's 600,000 plus villages have branch representation. The **credit to GDP ratio** in India is only around **50%** compared with over 100% in China (low in private sector but high in government/corporate sector). The average banking sector **loan to deposit ratio** is around **60%**. **Deposits** continue to grow and the **credit multiplier** has typically been **3x GDP**. Generally, net interest margins and cost to income ratios look good. That acknowledged, public sector banks typically have small consumer loan books, i.e. less than 20%, low levels of non interest income and are likely to require further funding from the Indian Government to improve their capital adequacy ratios (although by and large the banking sector remains reasonably well-capitalised). This will be necessitated by ongoing growth as well as issues associated with **restructured** loans and **agricultural relief** loans which have raised the level of Non Performing Assets in a number of instances. Another particular feature of the Indian system is that 40% of loans are required to be extended to the "Priority Sector" i.e. agricultural, MSME (micro, small and medium enterprises), housing, retail, education, consumption, software and venture capital, with 18% allocated to the agricultural sector and 10% to "weaker sectors" (includes small farmers, the cottage industry and scheduled caste and tribes). While consolidation of the public sector banks appears inevitable long term, it is by no means certain in the near term.

One of India's economic strengths is that its private **domestic consumption** as a **percentage of GDP** amounted to **57%** in 2008, compared with China's 37% (source McKinsey). This makes India less reliant on external factors, e.g. world economic recovery than China. Also worth highlighting is that both the **Reserve Bank of India** (autonomous body) and the **Securities and Exchange Board** (SEBI), which regulates India's securities markets, have **fine reputations** and are **held in high regard**.

Another noteworthy feature of India, is that it remains the world's largest consumer of gold, having purchased 480 tonnes in 2009 (713 tonnes in 2008) compared with Greater China, which purchased 462 tonnes in the same year. For every 100 grams of gold purchased worldwide, Indian consumers purchased 14 grams for jewellery and investment purposes. Indians have for centuries kept much of their private wealth in gold and last year's purchase of 200 tonnes by the Reserve Bank of India indicates the government is now starting to do the same.

Going forward, **companies** doing **business** in India face a number of **challenges** and some of these may be summarised as:-

- **Government – Governance and corruption**

While things have improved, both remain major issues in India. For example, much government spending fails to reach its intended recipients and the Indian Civil Service is overstaffed and inefficient. Edward Luce, in the book "In spite of the Gods", commented that "almost 100 of India's 545 members of Parliament have criminal backgrounds".

- **Infrastructure**

Historically this area has suffered from corruption, bureaucracy, etc. The 11th 5 year plan (2007-12) for infrastructure spending indicated **government expenditure** of around **US\$500bn** over that time period. The capital will be spent on a wide variety of projects in areas like airports, ports, roads, energy, power, property, irrigation, etc. This will continue to add GDP growth, as it has done in recent years. Nevertheless, it seems unlikely all the capital will be spent in the time period due to regulatory, funding issues, etc.

- **Education**

India has also made huge progress in this area but only 15% of students reach high school and the country is very short of qualified teachers (there are 6m in the country). Despite this, India's six Institutes of Technology, the Indian School of Business and the All India Institute of Medical Sciences are regarded as "world class". The government has substantially increased its level of education related spending, and has also more recently enabled greater private sector participation.

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### • Labour Laws

Archaic labour laws have stifled economic activity in India. The country needs to create 12-15m new jobs a year and reform is urgently needed in this area. Around one third of all jobs in the “organised sector” are government jobs (secure) and more must be done to stimulate private sector employment in areas like manufacturing.

The above acknowledged, every country in the early stages of economic development has “challenges” and India is no different to others.

The recently announced **Indian budget** forecast GDP growth of 7.2% to 7.5% in the year ended March 2010 and forecast growth of **9%** annually over the next two years. If India achieves this, she will be the fastest growing nation in Asia. The Indian Government also intends to cut its **fiscal deficit** from **6.7%** of GDP to **5.5%** in the coming fiscal year. This will be achieved by raising more revenue from indirect taxes and other measures. Longer term, the government will have to rationalise and reform the huge **subsidies** it pays in areas like food, fertiliser, etc., as well as indirectly on petroleum products. Total subsidies in 2008 amounted to nearly US\$18bn, excluding off budgetary liabilities of another US\$7bn. Both numbers would have risen significantly in 2009. This is one reason why India’s debt to GDP ratio is around 80% and needs to be reduced. Time will tell if the aforementioned come to pass, with most Indians currently more concerned about **soaring food prices** and their impact on **inflation**, which is hovering around 10% (this refers to WPI (wholesale price index); in comparison CPI (consumer price index) which has a 60% weighting towards food is printing at 15%). The Reserve Bank of India recently increased repo and reverse repo rates by 0.25%, and a number of further hikes are expected over the coming 12 months.

### India v China

India, from the standpoint of investing, is most frequently compared with China. That said, this is easier “**said than done**” as each market is **uniquely different**, with both having “**strengths and weaknesses**”. For example, we would prefer India to China for its democracy, rule of law (however slow), public information, free market economy (v a command economy), property rights, private companies, forward looking institutions (RBI, SEBI, etc), domestic consumption model (25% net savings as a percentage of disposable income) and lastly, but very significantly, its **demographic profile**. In contrast, China is preferred over India in such areas as government efficiency, methodical planning, infrastructure and urban development and in its support for “national champions” in the corporate sector. While some may debate the point, India’s strengths appear a little more qualitative than quantitative and China’s the reverse.

In the last 20 years China has “out-performed” India on most generally accepted economic indicators – GDP growth, inflation, external and government balances, etc. Conversely, India has out-performed on a political factors. The following table refers to a comparison of the performance of the Hong Kong, Chinese and Indian stock markets (as defined by MSCI). This shows that the (MSCI) Indian stock exchange has risen almost eleven fold since March 1993, and by 3.4 times since March 2000. The comparable figures are 1 and 3.1 times for China, and 4 and 1.6 times for Hong Kong. We note that the composition of the Indian stock exchange has been relatively more stable, compared to Hong Kong, and China. That said, historical performance does not necessarily translate to future performance. Indeed, at current levels, we would argue that HK/China represents comparatively better value than India.

	<u>Hong Kong</u>	<u>China</u>	<u>India</u>
1993-2010	4.1x	1.0x	10.9x
2000-2010	1.6x	3.1x	3.4x

Source: FactSet.

Refers to MSCI country index. In local currency, gross dividend terms, for period ending 31 March.

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Going forward, both countries seem likely to be competitors in some areas e.g. water in the Himalaya's and energy in the Middle East, as well as having different political agendas. That said, they could also be complimentary to each other in areas like computers, with India strong in software and China strong in hardware. In reality it is in India and China's interests to see continued peaceful economic development and we feel positions are warranted in both countries in any portfolio investing in the region as the future is always difficult, if not impossible, to predict.

### India and Australia

India is Australia's 8th largest (two way) trading partner with 3.9% share. India ranks behind China (14.7%), Japan (13.4%), the US (9.4%), UK (5.3%), Republic of Korea (5%), Singapore (4.7%) and New Zealand (3.9%). However, in exports, India represents Australia's fourth largest market with 6.6% share, after Japan (19.3%), China (15.6%) and the Republic of Korea (7.4%). India has been one of the fastest growing export markets for Australia over the last 5 years, and consequently has overtaken the US and UK as Australia's major export markets. Australia's main exports to India are coal, non-monetary gold, Education (#2 most popular destination for Indian students), copper and fertilisers.

Australian companies who have Indian operations include GHD, Leighton, Macquarie, Resmed, Cochlear and Woolworths.

In comparison, India only represents 1% of Australia's imports. However, the share of Indian imports into Australia has also been rising. Australia's main imports from India are in equipment, gems, medicines and textiles. As well, the largest Indian software firms (incl. TCS, Infosys) are represented in Australia and have a small but growing presence.

From an investment standpoint, Australia is a net exporter of capital to India. In 2006 the total value of investments in India was 2.3b (mainly through portfolio investment, with direct investment being very low). In comparison, India had invested 600m in Australia at the end of 2006. That said, a number of resource and IT related projects have seen this rise in recent years.

Whilst most of the focus to date has been on Australia's relationship with China (and rightly so), greater linkages with India are likely to emerge over the coming years.

### The India Stock Market

Financials form the biggest component of the benchmark Bombay 100 index, with a collective weighting of 23.5%. Energy (which includes India's biggest company by market capitalisation, Reliance Industries) makes up 13.7%. Materials, industrials, IT and consumer each represent 11-13% of this index. Healthcare, Utilities and Telco services in comparison each comprise 3-5% of the index.

### Conclusion

We came back from India with a small number of ideas, and while requiring further work, we believe they are well worth pursuing. We would have had more but currently valuation criteria are quite demanding in India. In addition, one of the reasons the trip was undertaken, was our desire to gain a greater understanding of the regulatory environment by which Foreign Institutional Investors (FIIs) are governed in India. We feel considerable progress was made in this area which is gratifying. Although the Fund currently has no exposure to India, it is realistic to assume this will change in the future. To highlight the potential of the country it is worth looking at India from a "historical perspective" and, according to economic historian Angus Maddison in his book "The World Economy: A Millennial Perspective", India had the world's largest economy from the first to eleventh century and again in the eighteenth

# CI ASIAN TIGER FUND QUARTERLY REPORT



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

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century with 32.9% of world GDP. Perhaps India (and China) are reverting to their normal positions of being the dominant economic forces in the world? Time will tell, but history is on their side.

### Outlook

We continue to believe that the Fund consists of good quality, competently managed, conservatively financed companies selling on reasonable valuation criteria (see below). With growth returning, and stockmarkets continuing to move higher, investors are increasingly optimistic. That said, we view the incredibly low interest rates around the globe as a measure of the problems facing the world, and developed nations in particular. This, together with increasingly “rosy expectations” about the future and its “back to business as normal”, means we remain more sceptical than many of our peers. As such, the Fund will continue to have a conservative and defensive bias.

	<b>Initial Portfolio</b>	<b>Benchmark</b>	<b>Initial – Bmark</b>
Aggregate Statistics: Value			
P/E	11.9	12.8	-0.8
Yield	3.1	3.2	-0.1
Price/Book	1.4	1.8	-0.4
EV/EBIT	11.6	13.0	-1.5
Growth			
Historic Earnings Growth	7.2	2.3	4.8
Forecast Earnings Growth	19.0	25.5	-6.5
Forecast Dividend Growth	15.5	14.8	0.7
Quality			
Return on Equity	11.6	14.0	-2.2
Dividend Cover	2.6	2.4	0.2
Debt/Equity Ratio	-13	28	-41

Source: UBS Portfolio Analytics system

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