

# CI ASIAN TIGER FUND QUARTERLY REPORT



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

## SEPTEMBER 2008

*A journey for a thousand miles must begin with a single step ... Chinese proverb.*

*If you must play, decide on three things at the start: the rules of the game, the stakes and the quitting time ... Chinese proverb.*

*When you reach the end of what you should know, you will be at the beginning of what you should sense ... Khalil Gibran.*

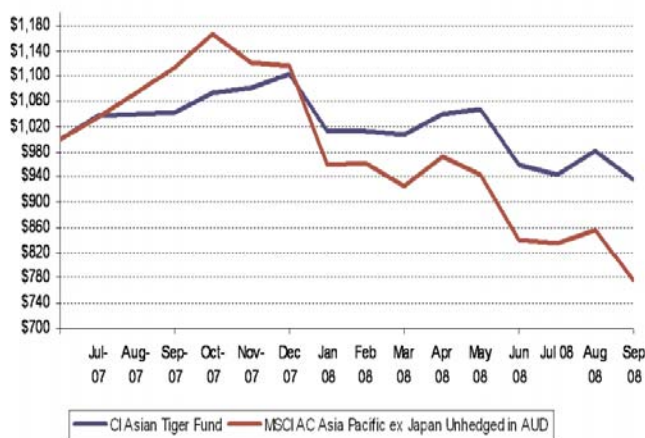
*Adversity is the foundation of virtue ... Japanese proverb.*

### PORTFOLIO PERFORMANCE

	PORTFOLIO	BENCHMARK	VALUE ADDED
ROLLING 3 MONTHS	-1.90%	-7.57%	5.67%
ROLLING 6 MONTHS	-6.55%	-16.24%	9.69%
ROLLING 1 YEAR	-9.84%	-30.36%	20.52%
SINCE INCEPTION*	-4.74%	-18.35%	13.61%
SINCE INCEPTION <sup>^</sup>	-5.89%	-22.41%	16.52%

\* Annualised  
^ Cumulative (2 July 2007)

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



With world financial markets in turmoil, the CI Asian Tiger Fund had another difficult quarter. Over this period, the Fund has continued to maintain a relatively defensive posture, with overweight positions in consumer, healthcare and selected industrial stocks across the region. Overall in absolute terms the Fund fell 1.90% compared to its benchmark which declined 7.57%. While the Fund outperformed over the quarter, no measure of real satisfaction is taken from this "relative figure". Given the exacting financial environment in which we find ourselves, we will continue to adhere to our cautious investment philosophy in the near term.

Over the September quarter, the Dow Jones 30 industrial average fell from 11350 (30/6/08) to 10850 (30/9/08) or 4.4%. Given the size of the US financial crisis, which has now spread around the world, this could be viewed as "respectable performance" and particularly when viewed against the performance of Asian markets, which have been particularly hurt by forced selling and redemptions.

	30/6/08	30/9/08	Movement
Australia	5332.90	4631.30	-13.1%
South Korea	1674.92	1448.06	-13.5%
Taiwan	7523.54	5719.28	-23.9%
China	2736.10	2293.78	-16.1%
Hong Kong	3108.84	2405.85	-22.6%
India	7029.74	6691.57	-4.8%
Thailand	768.59	596.54	-22.3%
Malaysia	1186.57	1018.68	-14.1%
Philippines	2459.98	2569.65	+4.4%
Indonesia	2348.10	1832.51	-21.9%
Singapore	2947.54	2358.91	-19.9%
New Zealand	3237.32	3114.47	-3.7%
Japan	13481.38	11368.26	-15.6%

The four worst performing Asian markets (Taiwan/Hong Kong/Thailand/Indonesia) all had declines of over 20% and most others, with the exception of the Philippines (+4.4%) and New Zealand (-3.7%) had declines of between 10% and 20%. Many of these Asian markets had performed very well before, aided by strong economic growth, investment and capital inflows. That said, a significant part of this growth, especially in countries like China, came from exporting consumer goods to western economies. With cheap credit in western countries, markets for property, stocks and all forms of consumer goods rose substantially, creating elevated debts levels and trade deficits. This process is now starting to unwind with the global credit crisis, which in turn will impact Asia, as more subdued world growth will reduce demand for exports and lower investment expenditure plans. Indeed, growth expectations continue to fall as the table below highlights and may even lead to recession. The banking, capital market and foreign exchange issues facing world markets seem unlikely to be resolved quickly or cheaply.

### World GDP Forecasts

% YOY	2008E	Old 2009E	New 2009E
US	1.4	1.2	0.3
Japan	0.8	1.2	0.7
Eurozone	1.1	0.7	0.3
UK	1.0	0.4	-0.3
Switzerland	1.6	1.3	0.9
Asia	7.3	6.9	6.1
of which:			
China	9.6	8.8	8.0
Latin America	4.4	3.6	2.7
Eastern Europe	5.9	5.3	4.6
World GDP	3.1	2.8	2.2
World Industrial Production	2.5	2.9	1.5

Source: UBS estimates

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The prospect of weak world growth and/or a recession and the recent rally in the US\$ has also caused general weakness in commodity prices. This, in turn, has negatively impacted on the quarterly performance of BHP (-29%) and RIO (-37.6%), both of which the CI Asian Tiger Fund owns. That said, overall profitability in local currency terms will have been aided by the weaker A\$. While the near term outlook for commodity prices remain uncertain, we remain positive longer term given the continuation of industrialisation and urbanisation in countries like China and India. The other resource investment the Fund owns is a mid rank Australian gold producer called Avoca Resources, which between 30/06/08 and 30/09/08 fell 11.1% on the back of a lower US\$ gold price (-5.8%) and notwithstanding the continuance of good exploration results.

Over the September quarter, poor economic statistics, falls in commodity prices and declines in Australian interest rates have seen the A\$/US\$ exchange rate decline from 96 cents to 79 cents or 17.7%. Having seen a "peak" of just over 98 cents on 15/7/08, the decline has been significant over a short period of time. This has helped the performance of the CI Asian Tiger Fund in absolute but not relative terms. While the US\$ rally may continue "near term", we believe that given the budget and trade deficits that exist in that country and its overall financial position, that prospects over a longer term horizon remain unattractive. For this reason, and the "credibility knock" that central bankers have taken around the world we remain fundamentally bullish about the outlook for the gold price.

With many Asian markets "oversold", the prospect of a "general rally" has to be a real prospect. That said, the much publicised problems in the financial sector are now starting to show up in the real world. This is likely to lead to lower levels of economic activity and lower corporate profits. With corporate profit margins likely to contract and a general move towards risk aversion, any rally may prove difficult to sustain. Having said that, Asian markets have fallen a long way and in many instances valuations have contracted significantly. For this reason, the Fund is now only holding a cash weighing of 13.7% which is below levels held previously. The maximum cash weighing the Fund can have is 20%.

From a geographic perspective, the Fund remains most "underweight" in the Australian, Taiwanese and Indian markets, while being most overweight in the Singaporean, Malaysian and Thai markets. At inception, the CI Asian Tiger Fund was significantly underweight Hong Kong/China on valuation concerns. Since "peaking" at 4517.10 on 1/11/07, the Hang Seng Index has fallen to 2258.11 or 50%, whereas the Shanghai Composite Index has fallen from a high of 6092.06 (16/10/07) to 2173.74 or 64.3%. Worth noting is that the Chinese market has also been recently adversely affected by issues specific to it, with the most obvious example being the issue of "tainted milk". We have used this period of weakness to increase the Fund's weighing in Hong Kong with the market now trading on much more reasonable valuations (see tables below). Worth highlighting is that of the ten stocks held by the Fund in Hong Kong, 7 have no debt, a further 2 have minimal debt, with the last one being a bank, which sells below NTA. The Fund now has a weighing of around 22% in Hong Kong/China compared with an index weighing of 26.8%.

	Hang Seng Index			MSCI HK		
	2007	2008E	2009E	2007	2008E	2009E
P/E (x)	13.0	13.4	11.6	12.6	14.1	12.2
Div yield (%)	3.7	3.9	4.5	4.1	3.8	4.1

Source company data & JP Morgan estimates

## Back To 12x P/E - Hong Kong



Source: JP Morgan

The political situation in Malaysia, as was evidenced from a trip made in September, is far from settled. Malaysia for some time has been a "one party" country built around the Barisan Nasional, which is a coalition of parties lead by UMNO. That acknowledged, following the country's elections in March 2008, the opposition, which a coalition of parties consisting of the PAS (Islamist Party), Democrat Action Party (Chinese) and the Peoples Justice Party (multi ethnic/educated middle class), is now much more effective under the leadership of recently elected Permatang Pauh MP Anwah Ibrahim. Furthermore in August, a Malaysian politician (UMNO) Dank Ahmad Ismail made inflammatory comments, in which he allegedly said that "the Chinese community were mere squatters in the country, who did not deserve equal rights" (source – Edge Financial Daily 8/9/08). As a result of these comments, he was suspended from UMNO in September 2008. To put the importance of this comment into perspective, Malaysia has a population of 27.7m people with 65% being Malays and other Bumiputra groups in Sabah and Sarawak, 28% being Malaysians of Chinese decent and 8% being Malaysians of Indian descent. Overcoming political and ethnic issues will be crucial to the ongoing development of the country. Malaysia has a good track record of economic development and has substantial natural resources (oil exporter), which makes us optimistic about its longer term future and the future of all Malaysians, notwithstanding this "cloudy" near term outlook. The Malaysian budget released in August still expects growth in GDP of 5.7% in 2008 and 5.4% in 2009. The fund currently has four investments in Malaysia which may be summarised as follows:-

- Bumiputra Commerce – This is the country's second largest bank with extensive interests in Malaysia and Indonesia.
- Hong Leong Financial – This company which is controlled by Tan Sri Quek Leng Chan, has 64% of Hong Leong Bank (6th largest in Malaysia) as well as interests in insurance, funds management and stockbroking.
- KPJ Healthcare – This is one of the largest healthcare providers in Malaysia, with a market share of around 20%.
- Aeon Co – This company is a leading retailer and shopping mall operator in Malaysia.

Having recently met with these companies, we believe all of them have sound long term growth prospects. Overall, the Malaysian market looks to be on an estimated 2008 P/E ratio of 12.1x to yield 3.8%.

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We also visited some of the companies the Fund owns in Singapore and met with a number of others. Indeed, two new investments have been added in Singapore. One of these is Parkway Holdings, which is one of Asia's leading integrated healthcare operators with interests in Singapore, Malaysia, Brunei, India and China.

Thailand is another market in Asia that has been "unsettled" by politics. In the last quarter, the Thai Prime Minister, Samak Sundaravej, has been dismissed from office due to his participation in a TV cooking show, which violated the Thai Constitution, which states ministers "should not have alternative gainful employment". The new Prime Minister of Thailand and the leader of the PPP is Somchai Woongsawas (Thaksin's brother in law). That said, this has not settled the dispute between the PPP and the PAD and the prospect of a dissolution of Parliament and a new general election remain very real. In essence, the PAD want only 30% of Thailand's Parliament to be elected and the balance of 70% appointed! These factors have impacted negatively on the economy, with growth to come down from 4.8% in 2007 to around 4% in 2008 and also the stockmarket. Nevertheless, as the table below highlights, the Thai market is not expensive and should benefit from lower oil prices.

### Key Financial Data Summary - Thailand

	<u>EPS Growth</u>	<u>P/E</u>	<u>ROE</u>	<u>Yield</u>
2006	-25.8	11.1	16.7	4.5
2007	2.3	10.8	16.4	4.2
2008E	17.4	9.2	18.4	4.7
2009E	10.3	8.4	18.6	5.0

Source: JP Morgan

<u>Portfolio</u>	
P/E	= 10.4x
Yield	= 3.5%
Price/Book	= 1.8x
EV/EBIT	= 8.6x
Historic Earning Growth	= 11.6%
Forecast Earning Growth	= 14.2%
Forecast Dividend Growth	= 3.1%
ROE	= 17.4%
Dividend cover	= 2.7x
Debt/Equity ratio	= 7%

Source: UBS

As was mentioned earlier, growth in Asia ex Japan should still average 7.3% in 2008 and 6.1% in 2007! That said, the composition of growth in a number of countries, eg China, will change, with greater emphasis on consumption. We will continue to look for opportunities in this area.

The Fund has four investments in Thailand, comprising two banks and two retailers, all of which we feel are attractively priced and have sound long term growth prospects. For example, Siam Makro is a leading cash and carry retailer with operations throughout Thailand. At current prices (THB 76) the stock is on a 2008 prospective P/E ratio of around 11.6x to yield around 7.8% and has no debt. We believe Siam Makro should achieve respectable growth over the next few years.

In conclusion, we feel it is important to keep current events in perspective. The financial crisis engulfing the globe will impact on economic activity and may even result in a world recession. That said, the adjustment process in the banking and investment banking industries will be more substantial than in the "real world". For example, the hedge fund industry is likely to be a lot smaller three years hence and as it liquidates stock positions, investment opportunities should arise to purchase good quality Asian companies, at attractive prices. Indeed, we believe the CI Asian Tiger Fund already has attractive fundamentals at current price levels (see table below) for those prepared to take a longer term view.