

# CI ASIAN TIGER FUND QUARTERLY REPORT



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

December 2011

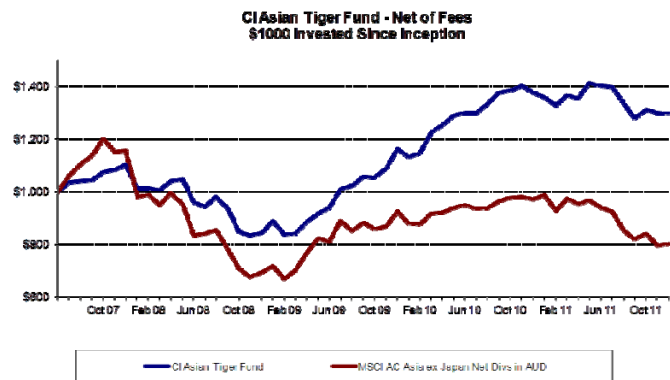
***“When you want to test the depths of a stream, don’t use both feet ...” Chinese Proverb***

***“The top of the hill is but the bottom of another mountain ...” Ankit Jamwal***

***“Problems are sent to us as gifts ...” Chinese Proverb***

## Market and Portfolio Performance

	**FUND	BENCHMARK	VALUE ADDED
ROLLING 3 MONTH	1.04%	-2.08%	3.12%
ROLLING 1 YEAR	-3.90%	-17.32%	13.42%
ROLLING 2 YEAR	8.77%	-6.85%	15.62%
ROLLING 3 YEAR	18.43%	5.00%	13.43%
SINCE INCEPTION*	7.91%	-4.77%	12.68%
SINCE INCEPTION^	40.84%	-19.74%	60.58%



\*Annualised

^Cumulative (2 July 2007)

\*\*Before fees and expenses

Last year proved to be less than an auspicious year for investing in Asia and many other markets around the world. While not belittling our Fund’s relative out performance, we never like negative absolute returns and aspire to do better in 2012.

2011 was a tough year for Asian stock markets, with all but two declining over the last 12 months in Australian dollar (A\$) terms. Furthermore, from a regional perspective, the MSCI AC Asia ex Japan under-performed relative to the MSCI AC World Index.

The worst performing MSCI AC Asia ex Japan markets over 2011 in A\$ terms were India (-37.2%), Taiwan (-20.9%) and China (-18.4%). The main reason for India’s poor performance has been aggressive monetary policy tightening, by the Reserve Bank of India (RBI). This continued in the fourth quarter with a further +0.25% increase in the country’s repo rate to 8.50%. The RBI is trying to control inflation in India and the latest WPI Index (November) of 9.1% is still well above its target of 7.0%. Higher interest rates have also put pressure on India’s likely GDP number for 2011, which is now expected at around 7.4%, compared with 8.5% previously. Other negative factors may be summarised as corruption scandals, economic policy inertia, the perception of potential problem loans in the banking sector (albeit this appears thus far confined to a limited number of industries such as transport, power and infrastructure), the uncertain global environment and more recently higher oil prices. A persistent current account deficit and also a fiscal deficit of 5.3% (JP Morgan 2011 est.) have not aided market

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sentiment and impacted negatively on the Indian rupee, which has fallen significantly over the last 12 months, against both the US\$ and the A\$.

Turning to China, which has also been amongst the worst performing markets (-18.4%) in our universe over the last 12 months. The Chinese market has also been negatively impacted by tight monetary policy. For example, the benchmark lending and deposit rates for commercial banks were increased three times in 2011, with the latest being a 0.25% rise in July to take the 12 month lending rate up to 6.56% (from 5.81% at the end of 2010). Bank Reserve Requirement Ratios (RRR) have also risen. That acknowledged, the People's Bank of China (PBOC) recently announced, that with effect from 5/12/11, it would cut the RRR for major banks by 0.5% to 21%. This was the first cut in the RRR for nearly three years. Chinese monetary policy has aimed, among other things, at trying to bring inflation under control. China's CPI has risen from just under 2% in 2009, to a little over 4.5% in 2010 and is forecast to be at around 5.5% in 2011. This compares with a targeted rate of 4.0%, although China's November CPI rose 4.2% year on year, implying inflation may have peaked.

Monetary policy appears to have been successful in bringing China's credit growth back under control. Total Social Financing (TSF) in 2010 amounted to RMB 14.27TR (of which official RMB bank lending amounted to RMB 7.95TR) and is estimated at RMB 14TR (looks conservative) in 2011 by the PBOC. This should translate into M2 (broad money supply) growth in 2011 of c13% (UBS est.) versus 19.7% in 2010. One of the outcomes of tight monetary policy has been the weakening trend in private residential construction, although real estate's contribution to Fixed Asset Investment (FAI) continues to be aided by social housing investment. With credit much cheaper within the "official loan quota", the weaker global economy and until recently, a higher RMB, it is not surprising that Chinese export growth has been slowing. With costs (wages, raw materials, etc.) rising, the future of manufacturing in China seems likely to be more focused on value added manufacturing with higher prices/profit margins. Another important aim, albeit a longer term one, is to increase consumption, which currently accounts for only 34% of Chinese GDP. How quickly this eventuates in the near term, will be at least partially dependent on external factors. The Chinese Renminbi appreciated by 4.4% over 2011 against the USD. Given current market conditions as well as lower Chinese trade surpluses, any short-term appreciation might be limited, but the trend over the medium-term is likely to be higher.

Taiwan's poor performance over 2011 can be largely attributed to its dependence on the weak world economy, which in turn has led to a sharp downturn in exports and lower growth. The country's exports (which represent 67% of GDP in total) are very concentrated in electronic products and in the first half of 2011, semi conductors and flat panels accounted for 25% of all Taiwan's exports. By way of comparison, South Korea's are much more evenly distributed among semi conductors, flat panels, cars, ships and communication products. A further complicating matter is Apple Inc's dominance of the tablet market globally and the related threat to Taiwan's personal computer manufacturing companies. Lastly, around 11% of Taiwan's direct exports go to Europe and indirectly the number would be closer to 15%. With Europe's growth slowing, the chance of a recession in 2012 and the continued prospect of Euro depreciation, the outlook remains very challenging for this market. Indeed, we do not believe that Europe's problems are over, with the fundamental issue remaining being monetary union without fiscal union.

In contrast, Indonesia (+6.0%), Malaysia (+0.1%) and The Philippines (-0.9%) have been the three best performing MSCI AC Asia ex Japan markets in A\$ terms, over the course of calendar 2011. Indeed, Indonesia was the standout performer last year, benefitting amongst other things, from:

- 1) The high standing of its President, Susilo Bambang Yudhoyono;
- 2) A favourable demographic profile;
- 3) Buoyant economic growth e.g. 2011 GDP est. 6.5% and 2012 GDP est. 6.2% (consensus estimates) and inflation remaining within targeted levels;
- 4) Strong domestic consumption, which accounts for around 60% of GDP;
- 5) Robust export growth, with commodities now accounting for around 50% of total exports. Furthermore, around 45% of its exports are sold into Asia (ex Japan). This is illustrated by the fact that China and India now account for 40-50% of Indonesia's total coal exports.

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Reflecting these factors, the Indonesian market has become widely owned by foreign investors and is now one of the more expensive in Asia. Nevertheless, it still sells on a 2012 est. P/E ratio of just 12.6x. Last, but not least, one of the important issues the country still needs to address, is its lack of infrastructure, where progress has been “painfully slow” in recent times.

The Philippines is another Asian market that would benefit from improved infrastructure, but the issue has not stopped the market performing relatively strongly in 2011. The two main positive drivers for the market, appear to have been the ongoing development of the Business Process Outsourcing (BPO) industry and continuing growth in overseas remittances.

The Malaysian market was the second best performing in 2011 and was helped by its “low beta” and the fact that it is relatively under owned by foreign investors (around 21%). The exports of commodities (e.g. oil, palm oil etc.) accounts for nearly 30% of Malaysia’s total exports. Nevertheless, Malaysia like Thailand and the Philippines, all have significant export exposure to the electronics sectors, which would suffer should a global economic downturn eventuate.

### **MSCI Index Data for the 12 months ending 31/12/11 in Australian dollars (with net dividends reinvested)**

MSCI AC World	-7.4%
MSCI AC ex Japan	-17.3%
MSCI Australia	-11.0%
MSCI China	-18.45
MSCI Hong Kong	-16.0%
MSCI India	-37.2%
MSCI Indonesia	+6.0%
MSCI Malaysia	+0.1%
MSCI Philippines	-0.9%
MSCI Singapore	-17.9%
MSCI Korea	-12.0%
MSCI Taiwan	-20.9%
MSCI Thailand	-2.7%

Over the last 12 months the A\$ has not moved significantly against the Renminbi (RMB) or the Hong Kong dollar (HK\$). In contrast, it has appreciated significantly against the Indian Rupee, e.g. in local currency terms the Indian stock market is down 25.4% but in Australian dollar terms it is 37.2% lower. Overall the MSCI AC Asia ex Japan index is down 14.9% in local currency terms, but negative 17.3% in Australian dollar terms.

Interestingly, the Economist magazine recently completed further work on its Big Mac Index, established some 25 years ago. The Big Mac Index has historically been built around the theory of Purchasing Power Parity (PPP). The recent refinement incorporates the relationship between prices and GDP per person, to estimate the current fair value of a currency.

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Based on the latest Big Mac Index released in July of last year, the following results emerged:

Country	Under -/Over + valuation against the dollar %	
	Raw Index	Adjust for GDP per person
Australia	+22	+12
China	-44	+3
Hong Kong	-52	-43
India	-53	-8
Indonesia	-35	+24
Malaysia	-40	+2
Philippines	-32	+33
Singapore	-10	-6
South Korea	-14	+21
Taiwan	-36	-7
Thailand	-42	+6

The key observation is that the level of under-valuation in Asian currencies is significantly less than was previously thought (at the current time). That acknowledged, the Australian dollar remains relatively expensive (rate of A\$/US\$ 0.92 on the 25/7/11 when the report was published), while the Hong Kong dollar is inexpensive. The CI Asian Tiger Fund (ATF) remains unhedged. Going forward, we believe there is a possibility that the US\$ could rally in the near-term, on general risk aversion, but we remain cautious longer term.

Over the last 12 months gold in US dollar terms has appreciated just over 10%, while the oil price (WTI) has managed to gain around 8%. With the world facing so many uncertainties, we continue to believe that having some exposure to gold is prudent and that it should be viewed as an "insurance policy".

## The Portfolio

Aside from new funds inflow, there have been comparatively few changes to the portfolio over the last 3 months. Indeed, total portfolio turnover for the last 12 months only amounted to 17%. That acknowledged, the cash raised from Nestle's acquisition of Hsu Fu Chi, which was one of the Fund's largest shareholdings, has been redeployed into two new names. One of those was a Chinese internet company which we believe has a sensible valuation and excellent long term growth prospects. The other is a Taiwanese based manufacturing company, with substantial operations in China, selling on a modest multiple, good yield and "cash at bank". This company provides the fund with excellent exposure to social housing development (12<sup>th</sup> five year plan 2011-2015 – 36.2 million units) in China. Both these new additions are long-established companies, conservatively managed and market leaders in their respective industries. Over the quarter we also increased our exposure to two Chinese retail names and subscribed to Evolution Mining's rights issue in Australia.

The portfolio's largest exposures remain in the consumer and financial sectors, while geographically the biggest exposures remain in China/Hong Kong and in ASEAN countries (especially Malaysia). We are underweight in markets such as Korea, Taiwan and India, and our holding in Australia remains at three stocks, comprising less

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than 10% of the portfolio. The portfolio's holding in cash amounts to c8% which will be slightly reduced, as one of our investments in Thailand is in the process of raising equity.

### **Observations from CI trips/company visits**

#### *Greater China and Korea, November 2011*

##### Politics

China – Will select a new group of leaders in 2012. The leadership transition will be completed by the time of the National Peoples Congress in 2013. At this juncture it seems likely that President Hu Jintao and Premier Wen Jiabao will be replaced by Xi Jinping (Vice President) and Li Keqiang (Vice Premier) respectively. That said, there is still some uncertainty, as China now depends more on consensus building, among special interest groups, in deciding who will govern the nation. The old days of one “Paramount Leader” choosing his successor, appears to have passed. China has a lot of good laws and regulations, but many are not implemented, especially at a local level. Many people hope this area and ongoing reform, will be important to whoever is chosen as the new leader.

Hong Kong – An election will be held in March 2012 to select the Chief Executive of Hong Kong. The current Chief Executive, Donald Tsang is not allowed to seek a third term. The new Chief Executive is selected by a 1200 member election committee (0.01% of Hong Kong's population) and is likely to be pro Beijing. Whether universal suffrage is introduced for the Chief Executive in 2017 and for the Legislative Council (60 members) in 2020, as some people “speculate” only time will tell. Nevertheless developments will be watched closely, as they will have potentially important implications, particularly for people in Taiwan.

Taiwan – Will hold a Presidential Election and Parliamentary elections in January 2012. The current President (Ma Ying-Jeou) and the Kuomintang Party (KMT) are pro China and have Centre right policies. The main opposition party is the Democratic Progressive Party (DPP) lead by a lady called Tsai Ing-Wen. The DPP focus is on Taiwan's national identity and is more cautious in embracing China, and its policies are Centre left. The election now looks as though it will be quite close as the DPP appears to have softened its stance on China and a large percentage of the electorate remains swing voters. Furthermore, The Peoples First Party (which was “grown” out of the KMT) may attract votes away from the KMT.

South Korea – The next election will be for the National Assembly in April 2012 followed by a Presidential Election in December 2012. This current President is Lee Myung Bak who leads the Grand National Party, while the main opposition is the Democratic Unity Party. Following the death of Kim Jong Il, the respective parties policies towards North Korea, seem likely to be particularly important to the electorate.

Since the death of North Korean Leader Kim Jong Il on the 17<sup>th</sup> December, 2011, there has been a lot of debate about the geopolitical situation of the Korean Peninsula. This is very valid, although the transition to date has been uneventful. Whether the change in leadership makes long term unification more likely, as happened in Germany, remains to be seen. The costs of this would be enormous, given that North Korea's estimated per capita GDP per head is only estimated at 5-8% of South Korea's (US\$25,010) and its population is large (ie. around 24.3m v 49.8m in South Korea).

##### Economy and Banking

Reflecting a combination of well debated domestic and international factors, GDP growth is expected to decline in 2012 in all the countries we visited during our trip. More positively, inflation is also expected to moderate in 2012. These are highlighted in the table on the next page.

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	Real GDP		CPI	
	2011E	2012E	2011E	2012E
China	9.2	8.0	5.3%	3.5%
Hong Kong	4.6	1.6	5.3%	4.0%
Taiwan	4.1	1.5	1.4%	1.1%
South Korea	3.3	1.9	4.3%	2.6%

Source: UBS

ICBC confirmed that Chinese banking regulation now focuses on the TSF data to measure credit. Historically around 85% of all loans came from within the official banking quota, but this has now reduced to 50-60%. In addition to the official banking loan quota, TSF includes such things as Letters of Credit, loans from Domestic Trust Companies, loans by other Non Bank Financial Institutions and loans from banks in Hong Kong. Official bank lending in China during 2011 is expected to be between RMB 7-8TR.

Management at ICBC stated that it was difficult to estimate the size of China's "shadow banking" market, which is centred on Wenzhou. Nevertheless, the market is critical to the SME market, which is hugely important to China, not least because it employs huge numbers of people. The indicative features of typical loans made through the shadow banking market are (1) Size – up to RMB 5m, (2) Duration – less than 3 months; and (3) Interest Rate – 35% to 50% annualised. In addition to the aforementioned, collateral is also taken from the borrower. The Chinese government is now trying to do more to encourage banks to lend to SME's through the official loan quota and therefore reduce their interest burdens.

While ICBC acknowledged that "issues could exist" in Local Government Financing Vehicles or LGFV's (was used to finance FAI), management stated that 83% of its loans in this segment had 100% cash flow coverage from projects and another 11.9% had between 70-100% coverage. Management, again focusing on areas of concern to investors, went on to say that ICBC, as at September 2011, had total property exposure of RMB 1.67TR (c22% of its loan book). This comprised RMB 1.15TR of mortgages (net Non-Performing Loans (NPL) 0.37%/ LTV 37.6%/ average loan size RMB 200,000) and RMB 0.52TR of property development loans (net NPL 0.77%/ LTV/40%). Lastly ICBC is very conscious of the Wealth Management loans (approximately 10% of 2010's total loans which in turn amounted RMB 6.7TR) it has made and believes the quality to be good.

Market consensus expects ICBC to report deposit growth of 11-12% in 2011 and loan growth of 12-13%, with slower growth being in line with a slower economy. At the end of 2011 its loan to deposit ratio is likely to be around 63%, while the banks net NPL is expected to be below 1% and its provision coverage ratio around 272%. In 2011 net interest margins will be around 2.65%, fee income will grow nicely, its cost to income ratio remains stable at 37%, while the bank's capital position will remain strong (CAR at about 12.2%). While we acknowledge that Chinese banks may have some NPL issues going forward much of this seems reflected in current share prices. To have a positive view on China's ongoing economic development (and thereby commodity prices and volumes = Australia), by necessity investors must have a favourable longer term view, on the country's banking system.

## Industry Commentary

- Muddy Waters, the US Research firm founded by Carson Black, continues to target Chinese companies. Reports in 2011 have covered China Media Express, Duoyuan Global Water, Sino-Forest Corporation, Spreadtrum Communications and Focus Media Holdings, amongst others. The impact of these reports has had a hugely negative impact on the aforementioned companies' stock prices and adversely impacted on market sentiment. Muddy Waters has only been in existence for about 18 months and has no full time

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employees except for Carson Black. The firm hires contractors to assist with research publications. Carson Black freely admits that people should be aware that he has an obvious “conflict of interest”, as he takes short positions in companies researched. We feel that the negative market sentiment may well have impacted on “good as well as bad companies” and are monitoring certain “mid cap stocks” closely, as a result.

- IDC estimates the global IT offshore outsourcing market as being 32-33BN USD in size in 2010, of which China represents c10%. In addition to this, China had a domestic or onshore IT outsourcing market of c3.8BN in 2010. Whilst growing, the industry in China is still both very young, as well as very fragmented. VancelInfo, one of the leading IT outsourcing companies, had annual revenue of US\$212m (2010) compared to Infosys in India with US\$4.3bn (2010).
- As a generalisation, there is not a lot of “high technology” left in the global consumer electronics industry, e.g. televisions, air conditioners, fridges, washing machines, audio appliances, handsets etc, and this area has been aggressively targeted by Chinese manufacturers. Indeed as Forbes Asia recently commented “whenever Chinese companies enter the picture a product becomes a commodity”. As such the low margin consumer electronics industry is now dominated largely by Chinese and Korean companies. A key positive is that manufacturing generates more employment than service industries.
- The per capita consumption on cosmetics in selected Asian countries compared to others internationally is approximately as follows:-

China = US\$8  
 Korea = US\$150  
 Japan = US\$300 +  
 France = US\$275  
 USA = US\$250  
 Source: Korean cosmetic company

- Automobile sales have grown rapidly in China in recent years, although they have “slowed” in recent times.

Product	2010 Sales + Growth Rate (Y/E December)	2011 Sales + Growth Rate (Jan-Nov 2011)
Passenger cars	13,757,800 +33.17%	13,103,600 +5.26%
Commercial vehicles	4,304,100 +29.90%	3,172,000 -5.93%
Total	18,061,000 +32.37%	16,815,600 +2.56%

Source: China Auto Market

The slower growth in 2011 has been attributed to a number of factors, with the end of tax incentives for small cars, being among the most important. That said, China continues to encourage the sale of small cars through a subsidy of RMB 3,000 on cars which consume no more than 6.3 litres (previously 6.9 litres) of fuel per 100 kilometres. Small cars also cut down on congestion in big cities like Beijing and Shanghai. China’s automobile sales are expected to grow 7-10% over the next few years, but luxury car sales are likely to see faster growth, as consumers in China now start to “trade up”. In addition to this, demand for automotive replacement parts and servicing is also expanding.

The automobile industry in China is highly fragmented; General Motors is the leader in the passenger vehicle market with 10% share. Winners in this market have been Chinese (32% share in 2010 vs. 28% in 2007) and Korean (9% share in 2010 vs. 6% in 2007) brands. On a global basis, Korean brands (led by Hyundai and Kia) have also been winning share, both in developed and other emerging markets (e.g. Hyundai has 16% market share in India).

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- The lift and escalator industry around the world generates significant recurring revenue from long term maintenance contracts. Asia is a significant area of growth for these companies (for e.g. 64% of new unit sales in 2010 for global top 4 player Kone occurred in Asia Pacific, with 60% alone in China; this compares to 54% and 51% respectively in 2009). The industry is also benefiting from powerful thematic trends in the form of urbanisation and environment.
- The pharmaceutical market in Korea is worth KRW 13 trillion, but some KRW 10 trillion is regulated by government price controls. Around 70% of all drugs sold in Korea are not patented. The Korean Government, highlighting the risk in heavily regulated industries, announced that it intends to cut the price of all non patented drugs by 15% in 2012. Healthcare spending as a percentage of GDP in Korea is only 2% and society is aging rapidly.
- A study by Swiss Re identified a US\$33bn mortality protection gap in the Asia Pacific ex Japan region as at 2010 (this is defined as the difference between the income needed to maintain current living standards for a person's dependents and the sum of savings and life insurance available to them; for the working population with dependents). This is up from 10bn in 2000, with large markets such as China, India, Indonesia and Vietnam showing the highest increases. Life insurance premiums expressed as a % of GDP equals 3% for the region, however this figure varies from 0.7% in Vietnam to 13.8% in Taiwan (in Australia, the comparable figure is 3.4%). Life premiums on a per capita basis for the region is US\$92.6, however this figure varies from \$7.6 in Vietnam to \$2887 in Hong Kong (in Australia, the comparable figure is \$1525) [all figures refer to 2009]. Insurance premiums tend to follow a "S"-correlation to GDP per capita, which suggests GDP plus growth rates for the insurance industry over the medium-term. The fund has exposure via AIA, which is the leading pan-Asian life insurance company.
- China represents approximately 40% of garment exports to both the US and Europe, and 80% to Japan. Despite the significant increases in operating costs, as well as large differential between Chinese wages and those of other countries (e.g. Cambodian wages are 1/3 of those in China), China is likely to remain the pre-eminent manufacturing hub given better worker efficiency, well-established logistics & infrastructure network, supply chain and more reliable energy/power source, at least according to a leading garment manufacturer (which represents 10-15% of production of the top sportswear apparel brands). That said, basic manufacturing, which requires infrequent changes in specifications (and can have long delivery times), will continue to migrate to lower cost countries.

## Company Commentary

- Bekaert, the world's leading manufacturer of tire cord (25% market share), continues to predict GDP plus growth from this activity in China.
- In a report, the World Health Organisation has shown that China loses more in productivity and healthcare costs from smoking than it obtains in taxes. Data from China National Tobacco Corporation (CNTC) and the State Tobacco Monopoly Administration (STMA), highlighted that China generated approximately US\$96bn in revenue from the sale of tobacco products in 2010 (source China Economic Review). The tobacco industry remains the governments' single biggest revenue source (represents a high single digit % of government revenues), therefore the risk of greater anti-smoking measures (e.g. warnings on packages) is likely to be a longer-term development. Furthermore, this is only likely to occur when the industry is fully consolidated.
- Magnaglobal, a media research company, has predicted that worldwide outdoor advertising will grow by 8.3% in 2011 to around US\$26.4bn. This is faster growth than for all other non internet forms of advertising. Future growth drivers seem likely to be aided by LED and digital developments. Outdoor advertising (bus shelters) in China should grow 11-12% in 2011.
- A leading luxury brand retailer in China believes that the concept of "Fast Retail", i.e. the ability of a company to take a design to the shop floor within 10 days, is not compatible with the development of super premium brands it is selling to its customers.

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- Retailers in China are all, in varying degrees, continuing to suffer from margin pressure due to escalating wages, higher raw material prices, pressure on logistic costs and the upward movement in rentals. For example, a leading casual wear manufacturer has seen wages increase from RMB 1500 a month (plus statutory surcharges) to RMB 2000 a month, i.e. +33% over the last 12 months.
- Korean companies have been actively targeting the Chinese market for a number of years. In the Fast Moving Consumer Goods (FMCG) space one leading company expects to grow its sales from KRW 72bn in 2010 to KRW 650bn by 2015. Another one aims to increase Chinese sales from KRW 147bn (2010) to KRW 700bn by 2015. If these targets are achieved for both these companies, China would represent 15-20% of group sales by 2015, up from mid single digit % figures today.
- The South Korean retail market is 60% modern and 40% traditional. Furthermore, the modern hypermarket segment is an oligopoly between Emart (37%), Tesco and Lotte, who together control around 90% of the market. Around 76% of Emart's sales come from "staples" and 25% from "private label".
- Shinsegae has 24% of the Korean department store market, compared to Lotte with 40% and Hyundai with 25%. That acknowledged, Shinsegae is the leader in the "high end" segment of the market and while it has less stores than its competitors, individual store sizes are much larger (50,000 sqm). Interestingly, the department store market "peaked" in the USA sometime ago, when GDP per head levels reached US\$30,000-40,000 and consumer preferences shifted to category killers, speciality shops and luxury shops. That acknowledged, department stores are still very popular in Korea, where GDP per head is around US\$25,010 compared to US\$49,340 in America.
- Korea is an interesting hybrid between emerging and developed markets – e.g. online already makes up 11% of the total retail market, which is more than supermarkets' share.
- The leading "consolidator" of China's scrap metal market is aiming for a long term market share of 15% and an operating margin of 8%. China's scrap metal reserves (ie 1.6bn units of home appliances and 190m cars in 2009) are growing rapidly and should be sufficient to meet domestic scrap demand by 2025.
- Concord Medical Services is a third party provider of leasing and management services for radiotherapy and imaging centres in China. It is the market leader with a share of 30%. Penetration rates for the type of equipment used in the industry are very low by global standards and growth, while dependent on type of equipment, has historically been 12-26% (Compound Annual Growth Rate (CAGR)). The company is now expanding into specialist oncology hospitals.
- With so many consumer stocks being highly rated in Greater China due to their defensive earning streams, we have tried and sometimes succeeded in finding manufacturing companies that offer similar, albeit more indirect exposure. One example would be a leading plastics related company with a focused, innovative and far sighted management team. The company in question has 38% of the domestic market in its chosen "niche" and a leading export presence, together with appealing valuation criteria and "cash at bank". A recent visit reaffirmed our positive view of this company. In a country where plastics consumption per capita amounted to 4.6kg in 2009 compared to 170kg in America in the same year, we believe long term growth prospects are very favourable.
- St Shine Optical (Taiwan) is a major Original Equipment Manufacturer/Original Design Manufacturer contact lens manufacturer, with around 1.6% of the global market (30% share in the segment not taken up by the Big Four brands). The company has a strong focus on Taiwan (own brand Ticon/38% sales 1H 2011) and Asia (45% sales 1H 2011), which together account for 83% of 1H 2011 sales.
- For investors prepared to accept liquidity constraints as well as exposure to "other assets", Ruentex Industries provides indirect exposure, via its ownership of 12.7% (direct & indirect), to the "high flying" Chinese hypermarket operator Sun Art Retail, at a substantial discount.
- While suffering from lower margins "near term" due to volatile and high raw material prices, we are confident that our Speciality Chemical exposure to China, will prove to be a sound long term investment. Indeed, it provides us with de facto consumption exposure through its activities in solvents, paints and inks. The board and management have had a superb long term track record and corporate governance has been excellent.

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- The restaurant market (size in 2010 = HK\$ 84bn) in HK comprises 47.3% Chinese cuisine and the balance fast food and “other”. The total population of HK is around 7m. The fund has exposure to a restaurant chain in HK, which is the market leader in Chinese cuisine (7% market share). In the first half of 2011, the company made EBITDA of HK\$165m in HK and EBITDA of HK\$94m, from its recently established operations in China. Its operations in China are centred on Guangdong province with a population of 105m!
- Anthony Nightingale, the Managing Director of Jardine Matheson, will step down from his position on 31/3/12. He will be replaced by Ben Keswick, who is currently the group Managing Director of Jardine Cycle & Carriages. Adam Keswick, who is Ben Keswick’s cousin, will become Deputy Managing Director. This move will not have surprised the market as both are “family”, but more importantly, have the appropriate skill base to be awarded the jobs on merit. Family companies like continuity and the passing of knowledge and relationships from one generation to the next and Jardine Matheson has had a great long term track record. 56% of Jardine Matheson’s profit is sourced from ASEAN countries, making this region the largest source of group profitability, rather than China, as many people might assume.
- Large diversified groups remain the primary form of enterprise in most Asian emerging markets, while these types of structures have been progressively dismantled over the last 50 years in most Western countries. Diversified groups in Asia (of repute) can add value, by imitating institutional functions that are present only in developed economies. Furthermore, many Asian diversified groups have become increasingly disillusioned with Western business models given:
  - 1) The value accorded to listed equities,
  - 2) Short term thinking of Boards and management
  - 3) Narrowly focused single businesses,

While at the same time remaining “totally unconvinced” by the institutional index tracking or “mimicking” model. Lastly there have been plenty of governance related issues in the West (as well as Asia) in recent years.

- We remain excited about the long term prospects of a soy milk manufacturer in Greater China to which the fund has exposure to. Last year the company had an operating profit of HK\$285m which it earned from just 7m people in HK. In contrast in the same year, it earned just HK\$110m from some 1.3bn people in China!
- Having purchased Hualian Supermarkets in 2009 for RMB 500m, there is a suggestion that listed hypermarket/supermarket operator Lianhua, will make a further asset purchase from its parent, the Bailian Group. The focus this time is on the Hualian GMS shopping centre company, whose primary assets are 19 hypermarkets in Shanghai. Bailian Group spent RM 442m to purchase the remaining 60% of Hualian GMS Shopping Centre Company in 2010.
- On our recent trip to Greater China, we had the opportunity to meet management from the largest PVC pipe manufacturer to China. The company has a market share of 11% and future industry growth should be at least 1.5x GDP. The company provides indirect exposure to China’s growing housing, water and sewerage industries.
- S1 has 59% of the total security market in Korea. Surveillance systems are the company’s “core” activity. The penetration rate of surveillance systems in the Korean commercial market is 30% and in the residential market only 5%. Currently 70% of S1 revenues come from monitoring and 30% from installation. S1 is also expanding into the Korean healthcare market.
- Samsung Engineering is a pure Engineering Procurement and Construction (EPC) contractor operating around the world. The company sources 25% of its sales from hydrocarbons and 74% from industrial and infrastructure work. Today most of its revenues are made outside Korea, mainly in markets like the Middle East and North America. Around 80% of Samsung Engineering’s work is “fixed price turnkey” which gives it Gross Profit margins around 15%. In contrast, American/European firms mainly do “cost plus” contracts and earn margins of 5-6%. Long term, Samsung Engineering wants to move into Front End Engineering and Design (FEED) and Project Management.

# CI ASIAN TIGER FUND QUARTERLY REPORT



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

## December 2011

- In a pre close trading update statement released on 8/12/11, Peter Sands, the Group Chief Executive of Standard Chartered, commented that “Standard Chartered is on course to deliver another strong set of full year results. Income growth remains resilient and well diversified, underpinned by high levels of activity across our businesses.” He went on to say “the growth prospects of our markets in Asia, Africa and the Middle East remain intact despite the increasing uncertainty in the West”.

## Market Outlook

As we enter the New Year, many investors around the world appear very risk averse. This is hardly surprising as the economic recovery following the 2008/2009 global financial crisis has not “played out” as many expected. Furthermore, the problems in Europe are yet to be concluded, but whatever happens sub trend economic growth looks likely for a number of years, even if a European recession can be avoided in 2012. With the deleveraging cycle in America ongoing, falling house prices, high unemployment, no real income growth and a presidential election in 2012, the outlook for the USA still appears challenging. Asia will not be immune from these and other global issues, but in the main its demographic and economic profile is much superior. In addition, Asian stock market valuations are already discounting much of the “bad news” and in our view the A\$ remains expensive. While things might “get worse before they get better”, we feel that ample opportunities exist at a stock level to make rewarding long term investments. Indeed, at current levels we do not believe the valuation criteria associated with the fund are onerous (see table below), while overall balance sheets remain very strong. We also believe inflation may have peaked in markets like China and India, thus giving regulatory authorities scope to ease monetary policy and thereby improve market sentiment. Lastly, China has the ability, should the need arise, to use nationally sponsored fiscal policy to stimulate the economy. That said, this seems likely to be done in a more moderate way and in different areas to that which occurred in 2008/2009.

	<u>Portfolio</u>	<u>Benchmark</u>	<u>Variance</u>
Number of stocks	43	616	573
Beta	0.83	1.00	-0.17
P/E (x)	9.9	10.5	-0.6
Yield (%)	3.3	3.2	0.1
P/B (x)	2.0	1.6	0.4
Historical EPSg (%)	10.6	5.1	5.4
Forecast EPSg (%)	17.3	10.0	7.3
Return on Equity (%)	19.8	15.1	4.7
Dividend Cover (x)	3.0	3.0	0.0
Net Debt/Equity (%)	-14	28	-41

Source: UBS Portfolio Analytics System

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## December 2011

### Updated Information Memorandum

On 1 January 2012 CI issued an updated Information Memorandum for the Fund. The investment philosophy and process used by us, and the investment strategy and guidelines for the Fund are both unchanged. However details of our investment team have been updated, as has the Fund performance, and there are some administrative changes in the Additional Information section. In addition, the management fee has been reduced from 1.25% to 1.0% effective 1 January 2012.

Please contact our client support team at [info@cooperinvestors.com](mailto:info@cooperinvestors.com) if you would like us to post or email you a copy of the new Information Memorandum. Alternatively, it may be downloaded from our website at [www.cooperinvestors.com](http://www.cooperinvestors.com).

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