ASIAN EQUITIES FUND
QUARTERLY COMMENTARY REPORT

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

For current performance information please refer to the Monthly Performance Report.

DECEMBER 2021

"The big money is not in buying or selling, but in the waiting. " – Charlie Munger

FUND PERFORMANCE – NET RETURNS

	**Portfolio	#Benchmark	Variance
December 21 Quarter	-2.18%	-1.87%	-0.31%
1 Year %	5.09%	1.13%	3.96%
2 Year % (p.a.)	9.10%	7.31%	1.79%
3 Year % (p.a.)	13.58%	10.87%	2.71%
5 Year % (p.a.)	12.62%	11.21%	1.41%
7 Year % (p.a.)	8.92%	9.11%	-0.19%
10 Year % (p.a.)	12.73%	11.79%	0.94%
Since Inception (cumulative)	10.42%	6.36%	4.06%
Since Inception (p.a.)	321.05%	144.69%	176.36%

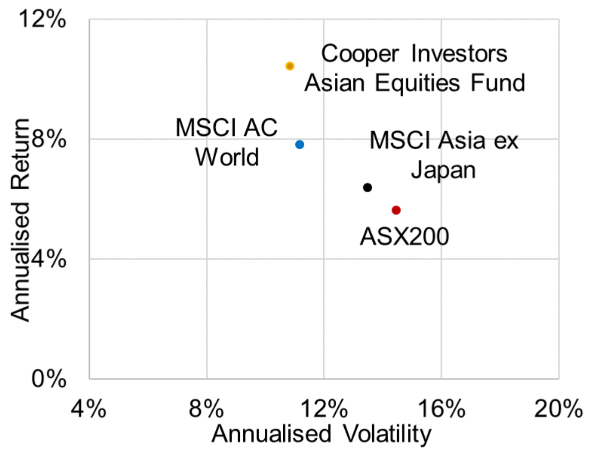
** Historical figures are derived from the historical returns of the existing Cooper Investors Asian Equities Fund Wholesale Class, net of fees and costs that are applicable to Retail Class units.
# MSCI AC Asia ex Japan Net Divs in AUD
Past performance is not necessarily a reliable indicator of future performance

TOP CONTRIBUTORS AND DETRACTORS*

Top Contributors	Biggest Detractors
Apollo Hospitals	China Mengniu
ASML	JS Global Lifestyle
L'Oreal	Samsung Electronics
LVMH Moet Hennessy Louis Vuitton	Shenzhou International
NetEase	Yum China

* In alphabetical order. Excludes stocks not held in the Portfolio

RETURNS AND VOLATILITY (SINCE INCEPTION)



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Portfolio Performance

The Fund lost 2.2% over the December quarter, slightly lagging the Benchmark at -1.9%. For the Calendar Year 2021, the Fund returned 5.1% (net of fees), ahead of the Benchmark at 1.1%.

Our investments in China and Hong Kong detracted 25bps of performance for the December quarter but contributed 217bps to outperformance over the Calendar Year 2021.

Detractors for the quarter include China Mengniu, Yum China, JS Global, and Shenzhou. For China Mengniu and Yum China, investors are worried about the continuous snap-lockdowns and a generally weak consumption environment. Whilst the duration and strictness of COVID lockdowns in China exceeded our expectations at the start of 2021, we are confident that consumer demand for Mengniu and Yum products remain robust. The product development departments in these companies continue to create appealing new products at a fast pace. Lockdown or not, consumers crave Mengniu's *Daily Meadow* branded premium fresh milk and Yum's mouth-watering crawfish sandwiches. We have often written about these two long term holdings in the past letters. The culture of resilience and innovation shine through particularly in times like this. Both Mengniu and Yum China also enjoy a strong balance sheet and healthy profitability and cash flows. We believe they will emerge from the current industry downturns, just as they have done repeatedly over the past decades, stronger with even higher market share than before.

Regarding JS Global and Shenzhou, the disruptions to their operations come mainly from congested ocean ports. This is a global challenge, and we believe the teams at JS and Shenzhou are handling this as well as any team could. We have been in contact with these companies often, and observed their scrappy operations teams working around the clock to track down one container at a time. We believe these challenges to be transient, and remain highly confident in these companies' long-term prospects.

2021 was a challenging year for Chinese internet and technology companies. Despite the solid operating performance (our Portfolio and Level 1 Watchlist stocks in this sector grew profit more than 10% on average), swift and drastic policy changes imposed a high degree of uncertainty in the sustainability of growth. Whilst we believe these regulatory changes will likely improve the overall industry profits and returns for the longer term, the near-term operating trends remain uncertain. We reduced our holdings substantially at the start of the year. Over the next few years, we still believe that our remaining holdings, all of which are run by the best management teams in the industry, will thrive and generate highly attractive returns for investors.

Our Indian holdings contributed 35bps of outperformance for the quarter and 148bps for the calendar year 2021. The performance was driven by our long-term investments, including Apollo Hospitals and WNS, who reported positive operating results with growth acceleration and better-than-expected profitability.

We are also excited about a number of newly listed consumer and technology companies in India. We are impressed by their high quality and dynamic young management teams and the large, untapped markets. Over the past twelve months, we have deepened our research particularly around digitized food services. We have a long term holding in Jubilant Food Works, who we believe is the technology leader amongst restaurant chains. We also initiated a position in Zomato, the leader in food delivery services (please refer to the later part of this letter for a more detailed investment proposition). The market potential is huge, as most Indians are still dining at home exclusively. Restaurants account for less than 10% of total food consumption in India, compared to over 40% in China and nearly 50% in the US[1]. The innovations are impressive – Zomato can now deliver daily household items to most urban

[1] *Source: Morgan Stanley Research; Cooper Investors research*

communities within 15 minutes. We believe these direct-to-consumer, 'new economy' companies will become a much bigger part of the Indian economy over the next few years.

Our investments in Korea and Taiwan detracted 85bps of performance for the December quarter and 65bps for the calendar year. Our investments in Southeast Asia detracted 41bps for the December quarter and 65bps for the calendar year. The Fund's intentional decision to not invest in a number of large cyclical companies in these regions is the main reason for the underperformance. Pleasingly, our portfolio holdings in companies that are listed outside of the Asian exchanges added 89bps of outperformance for the December quarter and 220bps for Calendar Year 2021. This is mainly driven by our long-term holdings in ASML and LVMH.

Recent Portfolio Changes

We initiated a position in **Alchip** (3661-TW) during the quarter. Alchip is a Taiwan-based chip service firm that provides design engineering support to its customers who want to design their own chips. Alchip also helps co-ordinate manufacturing with foundry partners such as TSMC once these projects reach the manufacturing stage. We are observing a growing trend of major internet and cloud service providers such as Amazon, Google, Alibaba, and Tencent who are designing their own chips. These chips are specifically customized for the cloud companies' own substantial computer workloads. Compared to the traditional chip design companies (e.g. Qualcomm and Nvidia) who tend to do virtually all the design work in-house, this new group of customers do not fancy hiring hundreds of semiconductor engineers who are getting more and more scarce. Instead, they prefer outsourcing the labour-intensive work to service providers such as Alchip. Alchip has two additional key competitive advantages – its engineering design service is highly experienced with advanced process nodes, and it has a cemented long-term partnership with TSMC. Going forward, demand for Alchip's service is strong and growing. We believe there are strong additional value latencies from potential new clients with large contracts. One recent example is a substantial contract with Amazon Cloud Services that will enter mass production in 2022. Alchip is trading at 35x P/FCF for sustainable 20% growth, which we believe is attractive as any potential new contracts could meaningfully accelerate earnings growth.

We initiated a position in **Zomato** (543320-IN), the leader of food delivery services in India. Food delivery penetration is very low in the country – out of the over 100 million regular online shoppers in India, only 15 million are currently ordering food online. We are observing a rapid change in consumer habits, especially in the young and urban communities, where people are opting for food delivery over lengthy meal preparation at home. Interestingly, just as consumers in emerging markets have leapfrogged the desktop computers and gone straight to mobile internet, consumers in India are leapfrogging dining in restaurants and going straight to delivery. Today, over 70% of the new restaurants started in India are 'cloud kitchens' – they are designed only for delivery, and do not have any dine-in areas at all. Given there is no natural physical foot traffic, the consumer and delivery networks provided by Zomato become even more valuable than in developed markets.

Photo: Cloud Kitchen in India. Source: The Restaurant Times

Zomato's 'unit economics', which measures the profit or loss on a per order basis, before corporate overheads, has already achieved break-even. We expect the total order volume delivered by Zomoto to go up by ten-fold over the next 5 years (one of the rare occasions where the room to grow is this big), and its profitability to reach at least its global peers (~6-7%).

Zomato was started by its humble yet passionate founder, Mr. Deepinder Goyal, and backed by Infoedge from its early days. Infoedge has been one of our long-term Level 1 watchlist companies. We have been admiring Zomato for years, as we discussed its prospects and culture at length with Infoedge's founder, Mr. Sanjeev Bikhchandani.

We initiated a position in **MedPlus Health Services** (543427-IN). Medplus operates the second largest pharmacy chain in India with more than 2,100 stores and commands a market share of 25%. We know the industry well, as our long term holding, Apollo Hospitals, operates the largest chain with 3,500 stores. We enjoyed meeting MedPlus' founder, Dr. Gangadi Madhukar Reddy, and are impressed with other senior management team members. Similar to the team at Apollo whom we have grown to greatly respect, the management team at MedPlus possesses a rare combination of compassion and business acumen. For example, Medplus provides accommodation facilities for its store level staff, who often come from the countryside and have difficulties finding boarding options. This act of kindness inspires loyalty and gratitude amongst the staff, who tend to stay longer, go through training more enthusiastically, and serve the customers better.

Industry dynamics for chain pharmacies are very attractive. Chain pharmacies account for only 1% of total pharmacies in India, and are gaining share rapidly from unorganized, mom-and-pop stores. Covid-19 pandemic accelerated the shift, as consumers increasingly prefer reputable pharmacies with strong digital capabilities. Store-level economics are very attractive, with an average payback period of less than 3 years. We believe MedPlus will significantly accelerate its store opening over the next few years. We participated in the MedPlus IPO, and established a small position.

Company News

Luxury auto dealer holding **Meidong** announced an agreement to acquire StarChase, a network of 14 Porsche locations in China for 3.7 billion RMB (A$808 million). This marks the first sizeable acquisition made by the company, having already proven successful in completing smaller bolt-on acquisitions. A larger deal like this one has been long awaited, with the company raising capital more than a year ago in anticipation of using it to fund larger acquisitions. The StarChase deal very much fits management's criteria: Porsche is a familiar brand with characteristics that make it profitable for dealer and the valuation of around 14x 2021 PE is a reasonable price. StarChase's margins are also below those of Meidong's own Porsche stores, so there is further latency in improving profitability. We remain impressed with Meidong management team's patience, thoughtfulness, discipline and decisiveness, and believe this is an accretive and attractive acquisition.

Meeting Notes

We had a one-on-one meeting with **Zomato's** (543320-IN) ambitious, motivated and passionate founder, Mr. Deepinder Goyal. Similar to many of the successful founders in the Portfolio, Mr. Goyal is both deeply hands-on with operations and visionary with a long-term strategy. We enjoyed the conversation that covered Zomato's journey from a restaurant review and discovery website to the leading food delivery service provider. We are also excited about its future as not only the food delivery champion, but a platform for 'quick commerce' in India. Impressively, Zomato is developing an ecosystem that could deliver daily items in major Indian cities within 15 minutes. We also deepened our understanding of Zomato's culture which encourages diversity of thought and emphasizes fast and efficient execution.

We enjoyed an engaging meeting with Mr Yashish Dahiya, founder of **PB Fintech Ltd** (543390-IN). PB Fintech operates a website called PolicyBazaar, India's largest online platform for insurance and banking products. PolicyBazaar is a household name and a trusted brand, commanding an impressive 90% market share in insurance policies sold online, and over 50% in all online loans origination. As most insurance companies in India lack the digital infrastructure and capabilities to directly engage with its consumers (most policies are still sold through the banks), PolicyBazaar offers a valuable service for both the consumers and the insurance companies.

Mr. Yashish is humble, purpose-driven, compassionate and focused. He is another 'alumi' from Infoedge, who was one of the early investors in PolicyBazaar. We believe there is much room to grow for PolicyBazaar as it expands its services and attracts more customers. We also expect it to become a very profitable business over time, given it does not bear any balance sheet risk.

We enjoyed meeting with Mr. Srinivasan Vaidyanathan, CFO of **HDFC Bank** (500180-IN). We are always amazed by how HDFC Bank maintains its entrepreneurial culture and agility, even after stellar success over the last 30 years that has made HDFC Bank the incumbent of the banking industry. The operating trends in retail lending (auto loans, mortgages and personal loans) are improving across the board. HDFC Bank is accelerating branch network expansion again, adding branches and employees rapidly. Semi-urban and rural is a big focus and HDFC Bank plans to double its brand footprint to cover 200,000 villages in the next few years. As a result of the aggressive network expansion, it is enjoying meaningful market share gain in key products. For example, during the October quarter, HDFC Bank grew auto loans by more than 35%, whilst auto industry sales languished.

We had a good meeting with the CFO of **Alchip** (3661-TW). Alchip was founded in Shanghai in 2003 by a group of Taiwanese engineers and is today led by one of the co-founders, Mr. Johnny Shen. Alchip provide semiconductor design services to its customers focussing on what's known as the "back-end" part of the design process, and then managing final manufacturing of the chip on behalf of the customer, working closely with a semiconductor foundry. Demand from its customers is robust, and the CFO observed the main challenge is to keep up with the demand and secure enough engineering resources across its offices in China, Taiwan and Japan.

We met with **Shenzhou** (2313-HK), where ESG initiatives were the main topic. As one the largest manufacturers of sportswear garments globally, maintaining a high standard of quality across its supply chain is a key area of focus. We are impressed with Shenzhou's progress. For example, through investment in IT systems, it is now able to track and monitor all facets of its supply chain, from the source of its raw materials to each step of the production. Shenzhou is also reducing its carbon footprint by using renewable energy sources such as wind in its Ningbo plant and installing newer energy efficient machinery. Reflective of the strong culture of humility and authenticity, there was a very honest acknowledgement that despite the progress made so far on ESG, there are still significant areas to improve. With Shenzhou customers, brands such as Nike, Adidas, Puma and Uniqlo imposing more stringent requirements on its manufacturers, we believe Shenzhou's industry leading ESG initiatives place it in a better position to meet these requirements and further deepen the its competitive moat.

We caught up with **Bangkok Dusit Medical Services** (BDMS-BKK), the largest private hospital chain in Thailand. The company's focus on digital services such as telemedicine is intriguing. Whilst digital currently only accounts for 1% of sales, BDMS aspires to grow this to 10-15% of total revenues by 2025. Digital services, at present, are very basic, limited to teleconsultations at a hospital level. BDMS are looking to invest in an integrated digital platform across its entire hospital base, to better leverage its entire network of doctors and services, and also provide additional services. Having seen the success of digital health services for a number of our other portfolio holdings, in particular, Apollo Hospitals in India, we are excited about the opportunities for BDMS in this space.

We spoke to **Li Ning** (2331-HK). Operating trends remain positive, as the company benefits from brand elevation in the minds of local consumers, and new categories such as Running are gaining traction. We believe new categories and sub-brands under its flagship *Li Ning* remain an exciting value latency.

For example, *Li Ning Young* is doing very well with kids, *China Li Ning* is becoming an icon amongst trendy teenagers, and newly launched *Li Ning 1990* is well received by consumers in their 30s.

Portfolio Attributes

Industry Sector Breakdown	
Consumer	30%
Information Technology	28%
Communication Services	12%
Financials	12%
Health Care	7%

Regional Breakdown	
China and Hong Kong	35%
India	23%
Korea and Taiwan	6%
Japan & Other	8%
ASEAN	21%

Portfolio Attributes[2]	
Number of stocks	38
Number of stocks outside of Benchmark	15
Beta	0.9
P/E (x)	25.8
ROE %	17.6

Subsets of Value Breakdown	
Growth	49%
Stalwarts	35%
Cyclicals	4%
Turnarounds	3%

[2] *Source: UBS Quant Answers*

Terms and Conditions