COOPER INVESTORS 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.

MARCH 2020

"Though there's no predicting when organized sports will restart, when our athletes, teams and leagues can return to competition, I do have one guarantee, when the gates reopen, when the first whistle sounds, the energy is going to be off the charts. The world's passion for sports remains undiminished." – John Donahoe, CEO of Nike

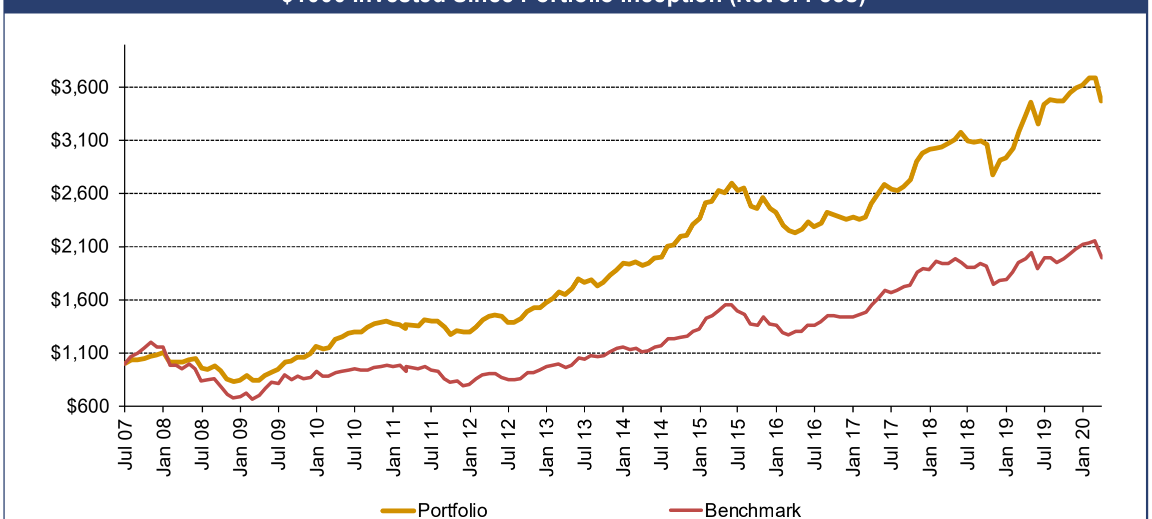
"Never give up. Today is hard, tomorrow will be worse, but the day after tomorrow will be sunshine." – Jack Ma, Founder of Alibaba

"In the face of adversity, I look up to the strength of human ingenuity that lies within each of us." - Rajesh Gopinathan, CEO of Tata Consultancy Services

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTH	-3.87%	-6.26%	2.39%
ROLLING 1 YEAR	5.66%	0.46%	5.20%
ROLLING 2 YEAR	7.40%	1.40%	6.00%
ROLLING 3 YEAR	12.68%	8.76%	3.92%
ROLLING 5 YEAR	7.00%	5.93%	1.07%
ROLLING 7 YEAR	12.57%	10.97%	1.60%
ROLLING 10 YEAR	12.74%	8.05%	4.69%
SINCE INCEPTION*	11.93%	5.55%	6.38%
SINCE INCEPTION^	320.73%	99.15%	221.58%

*Annualised
^Cumulative (2 July 2007)
**Before fees and expenses
MSCI AC Asia ex Japan Net Divs in AUD

$1000 Invested Since Portfolio Inception (Net of Fees)



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Market and Portfolio Performance

The March quarter saw sharp declines in global markets, rocked by the highly infectious COVID-19 virus. The Portfolio declined by 3.9% against the 6.3% drop of our benchmark. The outperformance was primarily driven by stock selection.

Across Asia as well as globally, countries are going through different stages battling a common enemy. We are not medical experts so will not opine on any statistics or curves. What we do observe is the usual hubris to humility cycle – the virus' spread is slowed by vigilance, and accelerated by complacency. We also observe incredible human resilience and strength, in business and life. The passion and commitment of our portfolio management teams inspire all of us to remain optimistic and carry on in these challenging times.

Our China and Hong Kong holdings contributed 50bps of outperformance to the March quarter. Over the past three months, China went through a full cycle of widespread virus, hard lockdown, stabilization, and recovery. Whist the short term earnings for most of our portfolio companies were inevitably impacted, we are confident that their long term prospects remain positive, and in some cases strengthened.

Consistent with what we observed in 2019, proprietorial culture, where management acts and thinks like owners, proved to be an effective antidote to systemic shocks. Resilience is a core tenet to proprietorial culture. Our founders and CEOs, having built the businesses from the ground up and navigated through myriads of competitive and regulatory challenges, did not flinch in the face of crisis. They wasted no time complaining or waiting for help from the government. They worked through the Chinese New Year holidays side-by-side with frontline employees. They ensured that their employees stayed healthy, created innovative solutions to meet customer demands, and resumed business quickly when it was safe.

Consider Shenzhou, the leading global sportswear manufacturer, as an example. Mr. Ma Jianrong, Shenzhou's founder and CEO, started working at a Chinese textile factory at the age of 13. A few months' national lockdown was not going to cause Mr. Ma to panic. Shenzhou quickly ramped up its compliance and safety procedures, and was amongst the first businesses to be given a permit to re-open in mid-February. When other textile factories scrambled to find workers and face masks (a work condition requirement), Shenzhou calmly retooled its factories to manufacture masks on their own, and sent out buses to ferry its 17,000 workers from 17 provinces back to its Ningbo factory. Bear in mind that during that time, provincial borders were closed. To be able to fetch the workers means Shenzhou had cleared bureaucratic obstacles to cross 17 provincial borders beforehand. Mr. Ma also had the foresight of building vertical supply chains within each country Shenzhou operates. As a result, its Chinese factory did not need to wait for fabric from Vietnam, and vice versa. We are confident that the global sportswear demand will normalize over time, and companies like Shenzhou will emerge as a strong market share gainer.

Observing our portfolio companies through the crisis also enhanced our conviction in the long term thesis on investing in Asia – many Asian businesses have become truly best-in-class operators in their fields. Their maturity in managing inventory, staff and customers in times of crisis rivals any large multi-national companies.

China Mengniu, a leading dairy company, is a good example. As shops were closed during COVID-19, Mengniu's sales teams quickly pivoted to eCommerce and other ways of engaging with customers directly. They set up over 90,000 Wechat groups, and sales from these community marketing efforts reached 10% of revenues in the March quarter. Mengniu is also proactive in inventory management. Its points-of-sales system identified unsold inventory in traditional small retail outlets due to store closures. It quickly bought back these inventories, and sold them via modern retail or online. Mengniu's ESG team also kicked in in full gear, transporting large quantities of milk and yogurts to hospitals in need. Mengniu is emerging out of the crisis with solid inventory position, a more nimble and capable sales team, and higher brand recognition.

Another clear trend that we have observed in China is the elevated importance of IT. We have written about how technology is becoming a competitive advantage for consumer companies in our previous letters. During COVID-19, IT became essential for survival. Whether a company has a resilient IT infrastructure, and more importantly, the right *technology culture* where employees create and embrace new solutions, means the difference between business-largely-as-usual and complete shutdown. Various portfolio holdings with leading IT solutions in their respective industries are enjoying markedly better operating trends than their peers. Some of the examples include:

- Yum China championed 'contactless deliveries' in early February. Food goes from the kitchen to consumers without human touch. Its booming online business helped cushion the restaurant closures, and maintain engagement with customers. This practice has since been emulated by delivery platforms and quick-service restaurants globally.
- Sun Art's investments in online delivery over the past two years paid off handsomely. Its online grocery deliveries saw a spike in demand, and more importantly, operations went smoothly to meet sudden demand surges.
- Ping An's agents continue to conduct many business functions online, including signing up new customers.

Our holdings outside of China such as DBS and LVMH are also known in their respective industries for technology prowess. We expect them to outperform their peers as well.

Our Indian portfolio had a disappointing quarter and detracted 46bps of performance over the March quarter.

The collapse of Yes Bank caused significant short term disruptions in the Indian banking sector. Led by its aggressive founder and CEO, Yes Bank expanded its loan book more than 4x over the past five years, and became the fourth largest bank in India. However, its underwriting standard was lax, exposing it to high risk borrowers such as IL&FS Group (we have written about the IL&FS crisis extensively in previous letters). Skyrocketing non-performing assets caused a run on deposits. The banking regulator intervened, put a moratorium on its deposits, changed its management, and finally injected equity from a consortium of banks.

We researched extensively to understand the implication for our portfolio holdings of HDFC Bank and Kotak Mahindra Bank. We concluded that both have a conservative lending practice, a stringent risk culture, with no exposure to risky borrowers. On the contrary, we believe this is the time when large, well-run private banks expand their market share, as their public and smaller, regional peers struggled. The enterprising managers at HDFC and Kotak Mahindra did not miss this opportunity – they acted quickly to attract the best customers from Yes Bank. The initial operating results for the March quarter were positive. HDFC Bank and Kotak grew deposits by 24% and 16%, respectively.

For the Indian IT Services companies, we have to admit that we under-estimated the impact from global growth slowdown. The global travel industry came to a grounding halt, hurting companies such as WNS, who generates ~20% of revenues from this vertical. In the short term, many of their projects are delayed or halted. In the long term, however, we believe COVID-19 exposes the weakness of IT infrastructures globally, from remote working connections to cybersecurity. The need to upgrade IT systems will be heightened, and the Indian IT services companies are well positioned to capture this long term opportunity. As Mr. Rajesh Gopinathan, CEO of Tata Consultancy Services, puts it, “As enterprises build more adaptive and agile organizations to survive uncertainty, technology will play an ever-increasing role.”

We have also observed the culture of adaptiveness and ingenuity from the IT services companies. Hundreds of thousands of employees had to work from home for the first time, many of whom live in homes with limited computing equipment and poor internet connections. Management of these companies arranged to send desktop computers to employees’ homes, and gave them wireless dongles to connect to the internet. From our observations, the work-from-home capability went from <50% to ~ 80% over one month.

We are also actively researching other new ideas in India. The Indian markets dropped over 30% in local currency terms after the government announced one of the strictest lockdowns in the world for three weeks. We believe it is essential for India, given its fragile public health system, to contain this virus. We applauded the fast reaction of the Indian government, the compliance of its public, and the pragmatism in its policies. We are observing more investment opportunities in India than we have for a long time.

Our portfolio holdings in Southeast Asia contributed 74bps to outperformance, driven by steadfast performance by our stalwarts such as Singapore Exchange. We were also pleased to see positive contributions from our holdings in Europe and Japan. Together they contributed to 55bps of outperformance. We continue to believe these companies add to both the quality and diversification of our portfolio.

Our portfolio holdings in Korea and Taiwan also generated 90 bps of outperformance, mostly due to our choice of not investing in highly cyclical or levered companies in those regions.

The biggest contributors to performance in terms of total shareholder return in AUD included:

- Sun Art (success in online grocery delivery)
- Singapore Exchange (regional stalwart with steady performance)
- Unicharm (demand for its core products such as diapers remains unaffected)
- Netease (success in mobile games and a promising future launch pipline)
- GDS (demand for high quality data centers remain robust as more businesses move online)

The biggest detractors to performance in terms of total shareholder return in AUD included:

- HDFC Bank (Yes Bank collapse and COVID-19 concerns)
- WNS (concerns around weakness in demand from the travel vertical)
- City Union Bank (concerns on slow loan growth in its core regions)
- Shenzhou (concerns on weakness in end-demand from its big global customers such as Nike and Adidas)
- Momo (impact of social distancing on its social and dating apps)

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Portfolio Review

Portfolio by Industry Sectors	
Financials	23.5%
Consumer	28.0%
Communication Services	13.7%
Information Technology	17.1%
Industrials	2.6%
Real Estate	3.2%
Health Care	4.6%
Utilities	0.0%
CASH	7.3%

Portfolio by Country	
China and Hong Kong	58.2%
ASEAN	10.1%
India	9.8%
Korea and Taiwan	10.3%
Japan & Other	4.3%
CASH	7.3%

Portfolio Attributes[1]	
Number of stocks	39
Number of stocks outside of benchmark	7
Beta	0.9
P/E (x)	17.8
Dividend Yields	2.0
Historical EPS Growth %	19.9
Forecast EPS Growth %	8.4
ROE %	16.7
Tracking Error vs Benchmark	3.9

The portfolio is positioned around five subsets of values as follows:

- **Stalwarts (39%)** - sturdy, strong and generally larger companies with world class privileged market and competitive positions. (Singapore Exchange)
- **Growth (37%)** – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management (Tencent)
- **Cyclicals (5%)** - stocks showing upside leverage to the cycle with experienced and contrarian managers who can allocate capital prudently and with good balance sheets. (Huazhu)
- **Low Risk Turnarounds (9%)** - sound businesses with good management in place and good balance sheets. We especially like spin offs and government to private turnarounds. (Sun Art Retail)
- **Bond-Like Equities (3%)** - businesses with secure, low-volatile dividends that can be grown and recapture inflationary effects over time. (Link Real Estate Investment Trust)

We believe the management types that produce the most attractive investment opportunities in Asia are 1) Founder-led, where the original founder aligns his/her interest with investors and remains committed to leading the business to bigger successes; or 2) owner operator, where the strong and

[1] Source: UBS PAS

unique culture permeates the organization, and 'thinking like an owner' becomes second nature to the management team. Together these two management types account for over half of our portfolio.

Portfolio by Management Type	
Founder Led	30%
Owner Operator	24%
Focussed Management	39%
CASH	7%

Recent Portfolio Changes

We actively high-graded our portfolio over the March quarter, adding to our highest conviction ideas with the most value latencies, whilst reducing or exiting others. We have one over-arching goal of identifying the best ~40 risk-adjusted investments in the Asia region. We are excited about our portfolio, and expect it to continue outperforming over the long run.

We initiated positions in internet data center developers and operators **GDS Holdings** and **21Vianet** over the March quarter. Carrier-neutral data centers in China are enjoying structural growth driven by the rise in internet data traffic, the shift to an off-premising IT structure, and accelerated adoption of cloud computing. GDS is the largest carrier-neutral data center operator and the partner of choice for large cloud operators. Over 70% of its revenues came from cloud service providers such as Alibaba Cloud and Tencent Cloud. Its existing footprint in tier 1 metros is nearly impossible to replicate, with strict restrictions on power and land availability. GDS also enjoys the largest development pipeline which is set to more than double its current capacity over the next few years. GDS is led by its founder and CEO, William Huang, and backed by high quality investors such as Tamasek, which holds 3 board seats via its subsidiary, ST Telecom, and Ping An. GDS belongs to the 'Growth' subset of value.

21Vianet, another nationwide data center operator, belongs to the 'Low Risk Turnaround' subset of value as it has had some past difficulties due to strategic mis-steps. However, since 2017 the company has refocussed on its core competency of operating data centers after disposing of loss-making non-core businesses. The new management team which came on board in 2018 has revitalised the company by resuming the development of high quality data center capacity, winning major wholesale customers such as Alibaba, and rebuilding credibility with investors. 21Vianet trades at a steep discount to its global peers, at around 10x EV/EBITDA.

During the quarter, we also initiated a position in **ICICI Prudential (IPRU)**, a leading life insurer in India. We have been observing the Indian life insurance industry for a long time, and was given the opportunity to buy IPRU after the stock fell nearly 50% in two months. The long term industry trends remain positive, with a large protection gap and a ~3% penetration. In the medium term, COVID-19 could potentially accelerate the growth of protection products as it exposes the lack of social security in the country. Product offerings tend to be homogenous in India, making the keys to success distribution and operational efficiency. We believe IPRU is excellent in both. Distribution is well balanced with an exclusive partnership with its parent ICICI Bank and one of the largest agency workforces. IPRU is also cost-efficient with industry leading cost ratios. We are impressed with its strong due diligence and risk management standards. IPRU has had zero defaults in its investments since inception. IPRU enjoys further latencies that include market share gain in retail protection product, and regulatory approval to sell indemnity health insurance.

Stock News

Alibaba We have followed with great interest the rise of Alibaba's Dingtalk, an instant chatting program focusing on businesses and schools. Dingtalk was initially developed as an internal communications and management tool. It rolled out a 'health tracking' feature to monitor staff's health conditions at the end of January, and has since gained immense popularity. It has become a mobile platform for business meetings and large online classes. The Alibaba team quickly innovated further and added a full set of HR functions including payroll, leave applications, travel and reimbursements, etc. We estimate that over two million businesses have signed up on Dingtalk. Its popularity even extended to Japan, where schools are using Ding Ding for online classes. We believe the impact of Dingtalk could be long term and far reaching, benefiting Alibaba's cloud and payment businesses over the long term.

Huya Tencent became Huya's biggest and controlling shareholder. Huya will continue to be listed as a public company. We believe this is a clear positive signal that Tencent is confident that Huya will be one of the winners in the end for game live broadcasting. Huya will also enjoy greater content procurement certainty since its biggest gamers on PC and mobile are nearly all Tencent games. We remain long term positive on Huya.

Trip and Meeting Notes

We travelled to China in mid-January. Since then we have been actively conducting in video-conference calls with our portfolio and watchlist companies. We conducted over 130 company calls over the March quarter, and must say we enjoyed the experience. In some weeks, the quality and quantity of our calls made us feel like we had been on the road. We look forward to visiting our companies again when the world normalizes, but for now we happily take in the views of our CEOs' home offices.

GDS We had a good first one-on-one meeting with its founder and CEO, William Huang. He talked at length of his fascinating journey of stumbling upon the data center business opportunity, painstakingly acquiring and building the best-in-class portfolio of these data centers, and now accelerating the growth by adopting an asset light model in partnership with Singaporean sovereign wealth funds. William is passionate, enterprising, and takes corporate governance seriously. We also enhanced our conviction in GDS' high quality of client networks. Remarkably, 50% of the cloud on-ramps in China are run by GDS. When new clients decide which data centers to use, GDS often becomes the default choice since their key customers, partners, or data providers are already run by GDS.

ICICI Prudential We had a high quality Zoom video call with the life insurer's CFO, Mr. Satyan Jambunathan. We had also sat down with the CEO of ICICI's generate insurance arm, ICICI Lombard, during our last visit to India a few months ago. We like the culture of both of the ICICI entities – both management teams are low-key, experienced, laser-focused on risks and costs. On the operating trends side, COVID-19 aside, there seems to be more pricing stabilization. IPRU also stood out in their focus on the growing agency and emerging new economy channels such as online and eCommerce. IPRU also attracted good talent - 'we have given the two promoter organizations (ICICI Bank and Prudential) more people than we had taken over the years'.

We did extensive research on **Burger King India**, who filed for IPO early in 2020. We spoke to its private equity founder, CEO, CFO and IR team over multiple video calls. We liked the Company's data-driven decision making process, fast pace of menu innovations, and creative marketing capabilities. Its creative menu particularly reminds us of Yum China. Similar to Yum China having duck rolls and congee on its menu, Burger King India's menu has more vegetarian items than non-vegetarian items. With a small foot print of ~250 stores across India, the growth runway is long. Due to market volatilities, the company suspended its IPO temporarily. We will monitor the company closely in the meantime.

Nonetheless, our research has provided us more insights into the quick-service restaurant ("QSR") industry in India. We also spoke to and researched **Jubilant Foodworks,** the master franchise of Domino's in India, Sri Lanka and Bangladesh. Over the last 25 years, Domino's has built a strong consumer franchise in India with its attractive '30 minutes or free' campaign. Their strong positioning is evidenced from the terms they have been able to negotiate with the food aggregators, something which other QSRs have struggled to do. Domino's completely owns the customer data and has full control of delivery, using food aggregators only for order collection. The company's innovative abilities have been on full display during the COVID-19 lockdown, where it has leveraged its digital and delivery capabilities to deliver essential daily items to its customers.

We spoke to the CEO, CFO and separately, the Head of ESG, of long-term portfolio holding **Vitasoy**. 2019 was challenging for Vitasoy, with a perfect storm of external events affecting operations that include protests in Hong Kong, rising commodity prices, and the recent COVID-19 outbreak. However, despite this, we continue to be impressed with management's focus on executing on the company's long-term growth opportunity in mainland China. In particular, we are excited about Vitasoy's innovation pipeline. For the first time, Vitasoy will be introducing new products designed specifically for consumers in mainland China. Vitasoy also has one of the highest ESG standards in the Hong Kong market. Its entire management, from the CEO to the Head of ESG, gave us a strong sense of passion and mission. It undertook extensive internal and external stakeholder assessments this year to identify the ESG issues most relevant and actionable - product safety, quality & nutrition, business ethics, sustainable packaging, waste from operations and responsible sourcing.

We conducted a call with the CFO of **NetEase**. NetEase's digital entertainment businesses (in particular its video games) are likely to remain more resilient in the face of the COVID-19 outbreak as consumers stay at home. Since 2018, NetEase has been impacted by stricter regulatory requirements which have delayed the launch of new video games. While this has been a headwind, NetEase has since been able to better align its content development with the new rules. On the other hand, stricter regulatory requirements are likely to further entrench the incumbents NetEase and Tencent, with smaller developers and publishers being less well positioned to comply with stricter requirements. Outside of gaming, NetEase's Cloud Music product is the second largest online music streaming service in China. Cloud Music remains loss-making due to the unfavourable cost structure of licensed music in China. The potential for content costs to rationalise and move closer to the variable structure enjoyed by global peers is another source of value latency we see for NetEase.

We had an interesting initial call with **Topsports'** management following its IPO in October last year. Topsports is the largest sportswear retailer in China, operating mostly mono-brand stores selling Nike, Adidas and other international sportswear brands. Not only is Topsports well positioned in the structurally attractive sportswear category, it is also positioned to grow its market share as brands look to consolidate their respective distributor bases. Topsports is also investing heavily in its technology capability which we believe can be a long term source of competitive advantage as it enables better engagement with customers as well as more efficient operations. We have added Topsports to our watchlist and will continue to deepen our relationship with management.

We hosted an impressive call with **Midea**. Its communications and transparency stood out, as the first company to send out a report detailing COVID-10 impact on its production, supply chain, sales and marketing, and consumer response one month after the COVID-19 breakout. Its sales team quickly changed product promotion focus from large appliances to smaller, germ-killing appliances. It also actively engaged in more innovative marketing tools such as livestreaming.