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 2022

"Know what you own, and know why you own it." — Peter Lynch

FUND PERFORMANCE – NET RETURNS

	**Portfolio	#Benchmark	Variance
March 2022 Quarter	-16.79%	-10.92%	-5.87%
1 Year %	-15.16%	-13.42%	-1.74%
2 Year % (p.a.)	1.54%	4.62%	-3.08%
3 Year % (p.a.)	2.50%	3.21%	-0.71%
5 Year % (p.a.)	7.40%	7.09%	0.31%
7 Year % (p.a.)	4.53%	5.56%	-1.03%
10 Year % (p.a.)	9.52%	9.21%	0.31%
Since Inception (p.a.)	9.02%	5.42%	3.60%
Since Inception (Cumulative)	257.50%	117.96%	139.54%

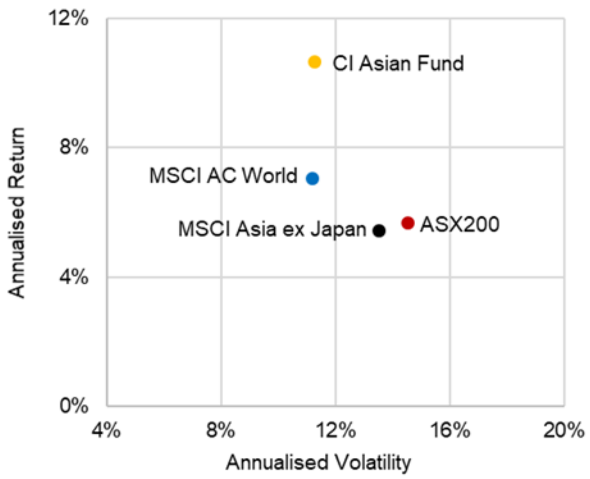
**Net of fees and expenses
MSCI AC Asia ex Japan Net Divs in AUD
Past performance is not necessarily a reliable indicator of future performance

TOP CONTRIBUTORS AND DETRACTORS*

Top Contributors	Biggest Detractors
Alchip Technologies Ltd	Dr Lal
DBS Group	JS Global
Singapore Exchange	Momo.com
Tata Consultancy Services	Sea Ltd (Singapore)
WNS (Holdings) Ltd	Shenzhou International Group Holdings

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

RETURNS AND VOLATILITY (SINCE INCEPTION)



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MARCH 2022

Portfolio Performance

The Asian markets had a challenging quarter, declining 11% in AUD terms. It was a tumultuous ride. The Benchmark started off calmly with a relatively flat January. Then it entered a violent decline, bottoming out during mid-March, down nearly 18%. Then within two weeks it regained some lost ground and climbed 8% from the lowest level.

Unfortunately, the Fund did not keep up with our Benchmark and declined by 17%. The main reasons for our underperformance are:

- Some of our winners last year gave back part of their gains as Asia opened up. These are companies that had performed strongly during the lockdowns, and their stock prices rose meaningfully over the past two years. As various economies re-open, companies such as Dr. Lal Pathology Labs, Sea Ltd, Momo.com, and Jubilant Foodworks were perceived to encounter some near-term headwinds. We believe these companies are far from flash-in-the-pan 'COVID stocks'. They have established long track records of performing well during normal business conditions and their competitive advantages extend far beyond the pandemic.
- Sudden COVID lockdowns in China led to factory closures yet again (Shenzhou) and further disruptions in the supply chain (JS Global).
- The Fund does not have exposure to sectors that the market favoured during the quarter where the Benchmark is exposed to, particularly Materials and Energy.

Despite a weaker quarter, we have stuck to our strategy. The companies that we invest in are in the hands of the most capable management teams that we can find. Whilst short-term business trends and share price movements could be volatile, we believe these businesses are built to last.

Our investments in China and Hong Kong detracted 240bps of performance in the March quarter. The biggest detractors were Shenzhou, China Meidong, and JS Global.

On our broader China exposure, we believe external geopolitical risks were heightened by the war in Ukraine and the domestic economy growth remained pressured by COVID policies. On the positive side, we have observed signs that non-COVID related policies are becoming more accommodating. For example, the Chinese regulators are constructively working with US regulators to ensure Chinese companies can remain listed in the US. Domestic monetary policies and stimulus have also been supportive.

On balance our VoF process is flagging more operating trend challenges for our Chinese stocks. As a result, we have increased our holdings in the Stalwart Subset of Value, and reduced Growth Subset of Value. We also took our total holdings in China and Hong Kong from 35% to 32%. We remain confident in what we hold now - these companies are generating positive free cash flows with solid net cash balance sheets and are run by honest, capable and deeply passionate management teams.

Shenzhou had a rough quarter and its share price declined over 30% in AUD terms. The second half of 2021 and January 2022 was a perfect storm. Shenzhou was first hit by lockdowns in Cambodia and then in Vietnam. And just as these two countries opened up at the start of 2022, COVID shut its Chinese factories for 20 days.

Shenzhou's sales declined by 2.5% during the second half of 2021. In addition, the lockdown of its factories had a disproportionately negative impact on margins as fixed costs and basic salaries still had to be paid out. Shenzhou ended up filling the original orders for its Vietnam factory with its Chinese operations, incurring higher labour and freight costs. As a result, its gross margins compressed by 12 points.

MARCH 2022

While the near-term challenges had been bigger than we had expected, we strongly believe that Shenzhou's long term competitive position has actually *strengthened*. In a world with increasingly uncertain supply chain logistics, Shenzhou offers its clients unique flexibility across three countries. For example, during the Vietnam shutdown, Shenzhou's smaller competitors simply turned down client orders. Shenzhou, however, used additional shifts in its Chinese factories to deliver these orders on time. In the short term, these orders were filled at a higher cost. But in the long term the gratitude and trust from their clients will translate into high quality, stickier relationships.

Shenzhou's good work continues to attract new clients. 2022 marked the first year that Lululemon became a client. The fast-growing Chinese brands such as Li Ning are also beating a path to Shenzhou's door. Going forward, we believe Shenzhou will not only continue to enjoy demand that is much higher than its capacity, but an even more diversified and high-quality client base.

Concerns around weak macroeconomic conditions and COVID lockdowns negatively impacted **China Meidong**, a luxury automobile dealer. Sentiment was also weak due to a share offering to fund a previously announced acquisition (we wrote about this accretive and strategic acquisition in detail in our December 2021 letter).

We hold a different view. Luxury car demand turns out to be far more resilient than general consumer discretionary spending. Meidong is a pure play in this sector, with nearly 90% of sales from high end brands such as Porsche, Mercedes and Lexus. Inventory is at an all time low, and as a result, margins on new cars are very healthy. Whilst COVID restrictions temporarily stop the clients from visiting dealerships, sales leads continue to rise from online and telephone. We believe sales and margins are likely to accelerate meaningfully once key cities re-open. Meidong is now trading at 14x P/FCF and continues to grow earnings and free cash flows at a fast pace of over 15%.

JS Global suffered steep declines over the past few months as supply chain disruption caused some of its products to miss part of the critical Christmas sales. There were also worries that kitchen appliances sales in the US benefited disproportionately from COVID and 2022 would bring a year of challenging operating trends. Management was confident in its earnings call in March 2022 for a continued double digit revenue and profit growth. JS Global is now trading at less than 8x P/E.

Our Indian investments detracted 223bps of performance for the March quarter. The biggest detractors were Dr. Lal and Jubilant Foodworks. For **Dr. Lal**, the re-opening of India and the rapid elimination of PCR test requirements (we travelled into India in March without having to undertake any COVID tests) created a temporary yet sizable headwind for two reasons. First, COVID tests account for around 15% of revenues and they are more profitable than normal tests. Secondly, during the pandemic, the consumers tended to come in less frequently and opted for higher-value 'bundles' that combine multiple tests in one sample. These are very profitable products. While the PCR tests fell off faster than we anticipated, we still believe that Dr. Lal's core businesses of medical diagnostic testing remain solid. Compared to pre-pandemic, both consumers and doctors' requirement for timely and accurate testing has gone up, benefiting industry leaders such as Dr. Lal. The Company is accelerating its pace of expansion and its non-COVID business is now growing at a faster clip than pre-pandemic levels.

Jubilant Foodworks also saw its shares decline on worries of inflationary pressure and weakening consumer demand. The resignation of its CEO who decided to seek opportunities in start-ups also rattled investor confidence. On the inflation front, Jubilant is highly experienced at managing rapidly rising input costs. Jubilant had thrived through multiple cycles of sharp inflation in the past decade with the latest one during 2013-2015. For this cycle, the Company has already increased prices in December 2021, offsetting part of the higher costs. On the demand side, we do not observe dampening of demand for Domino's Pizzas – they remain some of the most innovative, tasty and affordable products in the market. Whilst we are disappointed about the resignation of Mr. Pratik Pota, whom we have met and liked, we believe Jubilant is on a very solid footing operationally, the founder family remains involved and is likely to find a suitable successor.

Looking ahead we continue to be optimistic about India. Our recent trip (more details in the later part of this letter) to Mumbai and Delhi found the streets packed, offices full and the country buzzing with energy. We have also detected early signs of manufacturing rejuvenation. In a world with complex geopolitical dynamics and uncertain logistics routes, diversification of manufacturing bases is top of mind for many global businesses. India is a prime location for a secondary production base. After decades of lagging their Chinese peers in scale and technology investment, the Indian textiles and appliances industries are seeing signs of strong global demand. We will further our research in these industries in the months to come.

Recent Portfolio Changes

We initiated a position in **Inner Mongolia Yili Industrial Group ('Yili')** (600887-SH), a major dairy company in China. As the closest competitor of our long-term portfolio holding China Mengniu, Yili has been on our watchlist for many years. Founded in 1956, Yili had a humble start as the Hohhot Huimin District Cattle Raising Cooperation in Inner Mongolia. It became the first dairy company to go public on the domestic Chinese stock exchange in 1996. Today Yili is the largest dairy company in the country with a market share of 30-40% across most of the core categories.

We are optimistic about the Chinese dairy industry for three main reasons. One, demand remains robust and resilient. Demand for basic milk (predominantly in the form of ultra-high temperature milk that can be stored at room temperature) continues to rise and the pandemic further heightens the consumer awareness of the health benefits of dairy. Furthermore, in multiple high value-add categories such as cheese and high-end fresh milk, the industry is still nascent. The second reason is the stable and duopolistic industry structure. Yili and Mengniu went through tumultuous years of cut-throat competition in the past. Those days are behind us now and smaller companies had long exited the industry. As a result, sales and marketing spend as percentage of revenues for both companies are steadily declining. Lastly, we believe Yili will grow meaningful market share in infant formula with its affordable pricing, high quality and unparalleled distribution capabilities.

Yili is trading at 24x P/E for reasonably sustainable mid-teens growth of revenue and free cash flows.

We initiated a position in **Moncler** (MONC-IT). Founded by Italian businessman Remo Ruffini in 1952 Moncler is a global Italian luxury brand specializing in winterwear. Mr Ruffini remains at the helm as the CEO and his family owns 26% of the Company. He has built a lean and high calibre executive team with long-standing experience from reputable groups such as LVMH and Luxottica.

Asia is a key growth market for Moncler, accounting for half of the sales and growing faster than the overall business. Unsurprisingly, China is the largest market. But Moncler is far from relying on China only - Korea and Japan are also strong contributors.

Moncler is highly innovative. For example, it created a multi-designer platform under the name "Genius", which comprises of monthly limited-edition collaborations with up and coming new designers. These collections are usually sold out within minutes and help boost the image of the brand amongst younger consumers.

Moncler enjoys substantial value latencies in entering new categories such as knitwear, shoes and accessories. It also acquired an Italian streetwear brand, Stone Island, and is in the process of implementing its own, much more efficient system whilst keeping the personality and loyal fan base. If executed successfully, we believe this has the potential of turning Moncler from a mono brand operator to a platform of emotional luxury brands that connect deeply with its core customer group.

MARCH 2022

Moncler is trading at 25x P/E and we believe it could achieve 9-10% compounded profit growth over the next few years.

We initiated a holding in **Coupang** (CPNG-US), a leading eCommerce company in Korea. Coupang was founded in 2010 by current CEO Bom Kim as an online daily deals and coupons business (similar to Groupon). Bom is highly innovative, strategic and never afraid to pivot the business via trial and error. Coupang went from a coupons platform to a marketplace, before finally settling in focusing its first-party eCommerce with an industry leading fulfillment system.

Today, Coupang has differentiated itself by being the only eCommerce company in Korea with an end-to-end fulfilment capability. Once a product enters Coupang's warehouse, Coupang is in control of the entire journey until it reaches the customers' doorstep. This results in an unparalleled level of service capability and speed - nearly all orders are delivered to customers <u>on the same day</u>. Similar to Amazon in the US, Coupang has rapidly taken share in a fragmented Korean Ecommerce market. Coupang started off with mostly fast-moving consumer goods and daily items and is quickly expanding into new categories such as fresh food, apparel and electronics.

We started to accumulate shares in CPNG after its stock price declined from an IPO high of $48 to below $20. We believe the value latency is becoming compelling at current levels, especially with its core business quickly ramping up gross margins as its scale grows.

Meeting Notes

We visited India for the first time since the start of the pandemic and it was exhilarating to meet companies face to face again. We also took pride in being one of the first investors that the Indian management teams hosted in their offices in over two years.

We had the luxury of not only meeting the Managing Director of **Dr. Lal**, Mr Om Manchanda, but also sitting down with Dr. Arvind Lal, the original founder and Chairman of the Company. We particularly enjoyed speaking to Dr. Lal who has a photographic memory and could recount every piece of software the Company has installed since 1998. Dr Arvind Lal lives and breathes the culture of humility and speaks frankly of both the challenges and opportunities of the industry. We believe the Company’s core business of medical testing can sustain double digit growth for many years to come. For the newer, wellness consult testing, competition is very fierce and could create short term disruptions in the industry.

We enjoyed an insightful first meeting with the Managing Director and CEO of Marico, **Saugata Gupta**. Marico has been a stalwart watchlist stock for a number of years. Saugata is energetic, focused, with very sharp insights and deep, nuanced understanding of his business. Product innovation and digital are two long term growth drivers. Operating trends could be volatile in the near term, with sharply rising input prices and uncertain rural demand. However, Marico is relatively better positioned, as the majority of its input depend on commodities that are domestically produced and as of now have not been subject to rapid inflation.

We met with the CEO and CFO of **Zomato** in Delhi. Market share gain continued for Zomato even as it paired back subsidies and marketing spending. We have observed more financial discipline in general, as the CFO is very focused on narrowing the cash burn. The company’s investment strategy has also become more focused, as it is concentrating on food delivery and quick commerce. We are still assessing the ultimate business model and profitability of quick commerce (15-minute delivery to the door) and will watch this industry closely.

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MARCH 2022

We had a productive meeting with Mr Srinivasan Vaidyanathan, CFO of **HDFC Bank** in Mumbai. The operating trends remain robust across retail and small-and-medium business lending. New customer growth is accelerating substantially – HDFC Bank is now adding 9-10 million customers annually, compared to 3-4 million before 2019. It is rapidly opening branches in the semi urban and rural areas, and there is a long way to go - HDFC Bank currently has 6,100 branches across the country, compared to the largest state-owned bank with 22,000 branches. We also learned about management's laser focus on technology. There is a strong intentionality to launch the first digital bank for the millennials in the country.

We were impressed with Mr Bijith Bhaskar, Head of Digital Channels & Partnerships at **ICICI Bank**. ICICI Bank had re-invented itself as one of the leaders in digital initiatives. The core banking system is cloud ready. ICICI Bank is also very open-minded and has adopted an ecosystem-based approach with more than 130 fintech partnerships. It created an open architecture for its applications so even non ICICI bank customers can install them and undertake transactions (like paying utility bills and tolls. ICICI Bank has already added more than 5 million new customers through these initiatives and started cross selling very profitable retail products such as personal loans and credit cards.

We met with portfolio holding **Alchip's** CEO and co-founder Johnny Shen for the first time. Alchip provides unique and specialised chip design services to customers but lacks the internal resources to do it with a specific focus on advanced "leading edge' designs for high performance applications. Johnny explained how historically the market for Alchip's services has been rather niche but this has changed dramatically over the last few years. In the past, most high-volume applications were designed by merchant silicon houses (Nvidia and Qualcomm), leaving Alchip to serve mostly smaller applications such as supercomputers. However, recent technological trends have elevated Alchip's value proposition. As improvements in the semiconductor manufacturing processes slow down and become more expensive, major technology players (such as Google, Amazon and Alibaba) are looking to leverage proprietary specialised chip designs to drive performance and will look to outsource some or all of this design work. This trend will see Alchip enjoy not only more project work, but potentially high-volume designs for which the Company will earn revenue based on total volume manufactured which is a key value latency.

We have deepened our work around the electric vehicle sector in China. Demand is rising fast – electric vehicles are already accounting for 18% of total vehicles sold in China in 2020 and this is projected to reach 50% in a number of years. Government is very supportive – high EV adoption is key to achieving the national target of net zero by 2060. Subsidies and favourable license registration are very enticing to buyers.

There are three listed Chinese electric vehicles companies – **Nio**, **Xiaopeng**, and **Li Auto**. We have conducted multiple meetings with all of them over the past few months. We are very intrigued by their tenacious organizational culture – similar to Tesla, all three companies came close to the verge of bankruptcy a number of times and yet persevered through. As a matter of fact, we have come across these entrepreneurs before – Xiaopeng's founder started a company called UCWeb that was acquired by Alibaba later; and Li Auto's founder started Autohome before selling to Ping An. Both Alibaba and Autohome were portfolio holdings at one point and remain on our Level 1 Watchlist.

With the exception of Nio, they tend to be vertically integrated from manufacturing to autopilot software. We are impressed by how well they have managed the complex manufacturing process and successfully combined a team of automobile manufacturing experts with a team of internet entrepreneurs. We will further our research in these companies in the following months.

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Portfolio Attributes

Industry Sector Breakdown	
Consumer	30%
Information Technology	29%
Financials	21%
Communication Services	6%
Real Estate	0%

Regional Breakdown	
China and Hong Kong	32%
India	23%
Korea and Taiwan	19%
Japan & Other	10%
ASEAN	11%

Portfolio Attributes[2]	
Number of stocks	34
Number of stocks outside of Benchmark	13
Beta	0.95
P/E (x)	21.21
ROE %	16.66

Subsets of Value Breakdown	
Stalwarts	47%
Growth	41%
Cyclicals	4%
Turnarounds	3%

[2] *Source: UBS Quant Answers*

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