CI ASIAN TIGER 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.

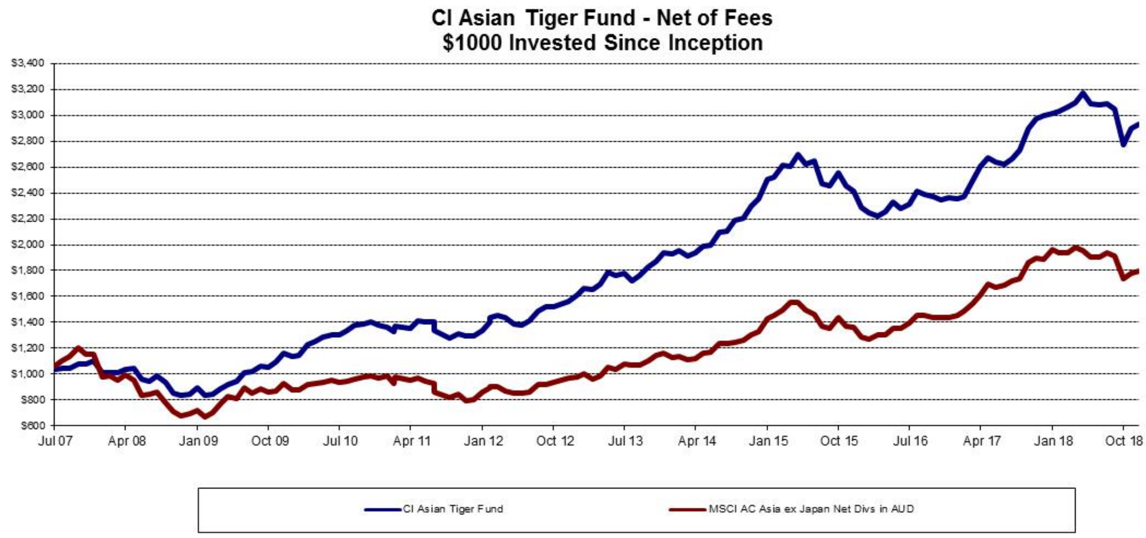
DECEMBER 2018

Believe your beliefs and doubt and your doubts. - F. F. Bosworth

"To improve is to change; to be perfect is to change often." – Winston Churchill

	****PORTFOLIO**	**#BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTH	-3.73%	-6.12%	2.39%
ROLLING 1 YEAR	-1.31%	-4.87%	3.56%
ROLLING 2 YEAR	12.51%	11.73%	0.78%
ROLLING 3 YEAR	7.91%	9.76%	-1.85%
ROLLING 5 YEAR	10.06%	9.13%	0.93%
ROLLING 7 YEAR	13.97%	12.19%	1.78%
ROLLING 10 YEAR	15.29%	9.98%	5.31%
SINCE INCEPTION*	11.56%	5.22%	6.34%
SINCE INCEPTION^	251.88%	79.52%	172.36%

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



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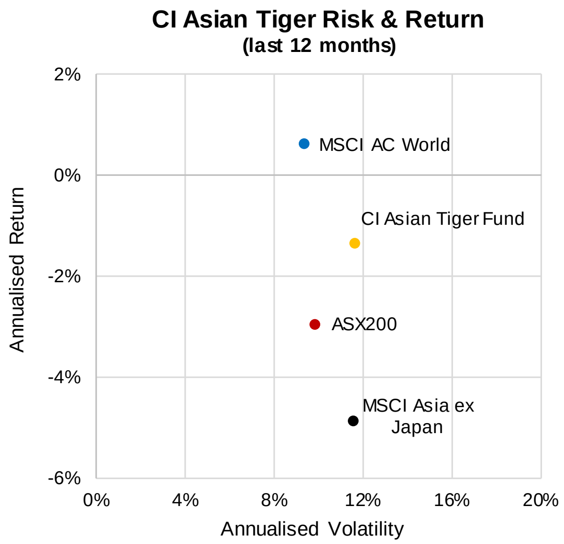
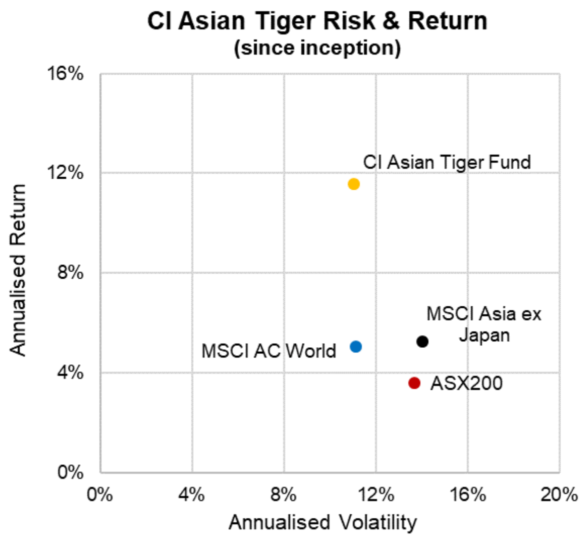
Market and Portfolio Performance

Volatility in the Asian markets exacerbated in the December quarter. The MSCI Asia ex Japan index dropped 9% in October and partially recovered in November and December, ending the quarter down 6.1%. The ATF fell 3.7% in the quarter. For the calendar year ended on December 31st 2018, the index declined by 4.9% whilst our portfolio fell 1.3%. The relative outperformance was driven by both stock selection and diversification across Subsets of Value.





Despite a tough 2018, we believe Asian equities still represent an attractive risk and return profile over the long term. Valuations have become particularly compelling, as both the MSCI Asia ex Japan index and MSCI China are now trading near 10-yr lows. Additionally, multiple industry sectors with positive long term tailwinds suffered significant stock price declines during these market-wide drawdowns, providing fertile hunting ground for long term investors. The ATF continues to focus on finding the 30-50 stocks in Asia with the best risk-adjusted value latencies, and we are enjoying the longest new idea pipeline in a number of years.

MSCI Asia ex Japan and MSCI China NTM P/E

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Asian Market Valuations vs. Other Major Indexes

	% 2018 Return	PER (x)		EPS Growth (%)			Dividend
	(AUD)	2019	2020	2019	2020	ROE	Yields
Major Asian Markets							
Asia Ex Japan	(4.9%)	11.3	10.1	6%	12%	12%	3%
China	(9.9%)	10.3	9.0	12%	14%	13%	2%
Hong Kong	2.4%	13.9	12.7	8%	9%	10%	3%
India	3.0%	17.7	15.0	20%	18%	13%	1%
Indonesia	0.9%	15.0	13.5	12%	11%	16%	2%
Korea	(12.2%)	8.0	7.2	(4%)	10%	12%	3%
Singapore	0.6%	11.6	10.8	4%	8%	10%	4%
Taiwan	1.2%	12.6	11.4	1%	11%	13%	4%
Global Comparisons							
US	5.5%	14.9	13.4	7%	11%	16%	2%
UK	(4.6%)	11.6	10.8	5%	7%	12%	5%
Europe	(5.4%)	12.1	11.1	8%	9%	11%	4%
Australia	(2.2%)	14.1	13.6	4%	4%	13%	5%

Source: Factset

Valuations and Growth for Select Sectors with Long Term Positive Tailwinds

	% 2018 Return	PER (x)		EPS Growth (%)		ROE	Dividend
	(AUD)	2019	2020	2019	2020	%	Yields
China Consumer Discretionary	(33%)	18.0	14.3	22%	25%	16%	1%
China Information Technology	(19%)	12.5	10.4	35%	20%	9%	3%
China Healthcare	(19%)	16.0	13.3	18%	21%	14%	2%
Korea Consumer Discretionary	(19%)	8.4	7.6	30%	10%	6%	2%
Korea IT	(17%)	6.1	5.5	(16%)	11%	20%	3%
Hong Kong Consumer Discretionary	(18%)	15.3	13.4	10%	14%	18%	4%

Source: Bank of America, Factset

In China, the deleveraging campaign over the past 2 years gave way to a more accommodating set of policies, including monetary stimulus and tax cuts during the fourth quarter of 2018. Started in 2016, the deleveraging campaign disproportionally pressured private businesses. It was de-emphasized during top leadership speeches in October 2018, signalling a potential change in policy direction. Subsequently, the Chinese central bank cut required reserve ratios and stepped up support for small-and-medium businesses lending. New personal tax allowances for home ownership, education and elderly healthcare were also announced in October. These tax cuts will particularly benefit middle and lower-income earners, who could see their taxes lowered by 10 to 50%[1].

Looking forward to 2019, we believe consumption, especially of non-luxury products that offer value for money for the middle class consumers, will benefit from this new direction of domestic policies. Over the longer run, it is yet to be seen if these policies are sufficient to offset the impact of potential extended trade conflicts with the US. On the other hand, we will also be on the alert for any excess liquidity or asset bubbles that these monetary stimulus might unintentionally create.

[1] Source: http://www.xinhuanet.com/english/2018-10/02/c_129964786.htm

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We also observed a more favourable regulatory environment for a number of industries. After a nine month freeze, new online game approvals resumed at the end of 2018. A new gaming regulator was appointed, and is swiftly working through the ~2,000 game backlog. In healthcare, after a draconian round of drug price cuts through a 'centralized procurement scheme' in December 2018, we started seeing signs of slowdown in further price cuts and a less aggressive push for swift nationwide price reductions. Cross border commerce is benefitting from a new and more clearly defined set of eCommerce laws that took effect in December 2018. The ban on group tours to Korea, enacted in 2017 that nearly cut Chinese visits to Korea in half, was also lifted in October 2018, to the relief of Korean duty-free shop owners and operators.

These temporary regulatory whiplashes do not change our long term views or focused research efforts. For example, we believe Tencent and Netease are amongst the best gaming content producers in the world, with creative game designs and sophisticated data analytics capabilities. Their games attract not only the Chinese gamers but increasingly also an international audience. Recent hits such as Tencent's *PUBG Mobile* and Netease' *Knives Out* are examples of these international successes. In healthcare, we believe the fear that the centralized procurement scheme will destroy the domestic pharmaceutical sector is overdone. We remain confident in our holding in 3SBio, as its innovative biosimilar drugs are unique in efficacy and dominant in market share. Since none of 3SBio's product has a cheaper alternative with equivalent efficacy, centralized procurement will have little, if any, impact on 3SBio's long term earnings power.

However, continued regulatory volatilities push us to delve even deeper in our research and stay vigilant and humble. Regulatory impact is a key component of the "O" score within the CI VOF investment framework. Over the course of 2018, we made meaningful progress in improving the CI networks in our focused clusters such as healthcare, IT and retail. For example, we conducted 45 meetings on the Chinese pharmaceutical sector alone over the past 6 months, the majority of which are one-on-one meetings with top executives. These meetings played an important role in helping us differentiate short term noise from real long term threats and challenges.

For the 3 and 12 months ended on December 31st 2018, our China and Hong Kong portfolio holdings contributed 1.28% and 1.12% to outperformance, respectively.

After a tumultuous October triggered by liquidity concerns around non-bank financial companies ("NBFCs"), the Indian market rebounded in the latter part of the quarter following the fall in crude oil price, the easing of NBFC liquidity concerns, and the appointment of Mr. Shaktikanta Das as new governor of the Reserve Bank of India ("RBI").

The previous RBI governor, Dr. Urjit Patel, was at loggerheads with the Modi government on various issues such as interest rate setting, the level of capital held by the RBI and the treatment of 11 PSU banks under Prompt Corrective Action ("PCA"). His resignation and the appointment of Mr. Das were well received by the market in the hope of more liquidity to support the government's growth initiatives. Whilst we believe a more coordinated effort between the central bank and the government is generally positive, loss of central bank independence could create longer term issues that warrant monitoring. Similar to China, we will be watching closely for any signs of excess leverage and worsening credit quality in the Indian financial system.

On the political front, Modi's Bharatiya Janata Party ("BJP") suffered defeats in three state elections (Rajasthan, Madhya Pradesh and Chhattisgarh) held in December. Given all three states were previously held by BJP, the defeats suggested increasing challenges to Mr. Modi in the upcoming general election. A reduced majority is the current 'consensus' but even this outcome may compromise Modi's reforms. The election in May 2019 will have far reaching impact on the growth trajectory and equity premiums of the Indian market.

For the 3 and 12 months ended on Dec 31st, 2018, our India portfolio holdings contributed 0.01% and 0.95% to outperformance, respectively.

We are delighted to see outperformance from smaller regions such as Southeast Asia and Korea for the calendar year of 2018. Additionally, as we wrote in the previous quarterly letters, Japan is increasingly becoming an area of interest for the ATF. We initiated a position in a Japanese stock in Sep 2018 and it contributed positively during the fourth quarter of 2018.

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

- City Union Bank (solid core business progress; immune to non-bank financing company risks)
- HDFC Bank (solid core business progress; immune to non-bank financing company risks)
- Clear Media (trading resumes at a higher level than our internally marked-down levels)
- Vitasoy (continued strong growth in China business with nationwide sales network)

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

- Leeno (concerns around declines in global smartphone demand)
- WNS (sector-wide de-rating. Business fundamentals remain solid)
- 3SBio (concerns around regulatory pressure on prices. We do not think 3SBio's products are impacted)
- 51Jobs (macro concerns around employment in China)

The Portfolio - Strategy, Structure, Process, Risk Review and Recent Changes

Strategy

- The ATF strategy targets enduring total returns growth, with annualized returns exceeding the MSCI Asia ex Japan index by 200-400bps over the long term
- The strategy tends to outperformance in down-markets
- The strategy is to find a portfolio of stocks in Asia with the best risk-adjusted value latencies across 6 subsets of value.
- The strategy emphasizes long term thinking in research, investment horizon and partnership with management
- The strategy allocates capital based on bottom up stock selections and industry analysis

Structure

- Concentrated, long-only, long-term equities portfolio with 30-50 stocks
- Portfolio companies with risk adjusted value latencies across 6 subsets of value
- Long term investments in 'proprietary managers' who think and act like business owners
  - Passionate, humble and focused
  - Aligned incentives
  - Knowledgeable and 'learning machines'
  - Value-based capital allocation with conservative balance sheets

The current portfolio is positioned around 5 subsets of value as follows:

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- **Stalwarts (44%)** - sturdy, strong and generally larger companies with world class privileged market and competitive positions.
- **Growth companies (36%)** – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management.
- **Cyclicals (6%)** - stocks showing upside leverage to the cycle with experienced and contrarian managers who can allocate capital prudently and with good balance sheets.
- **Asset Plays (4%)** - stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value.
- **Low Risk Turnarounds (2%)** - sound businesses with good management in place and good balance sheets. We especially like spin offs and government to private turnarounds.

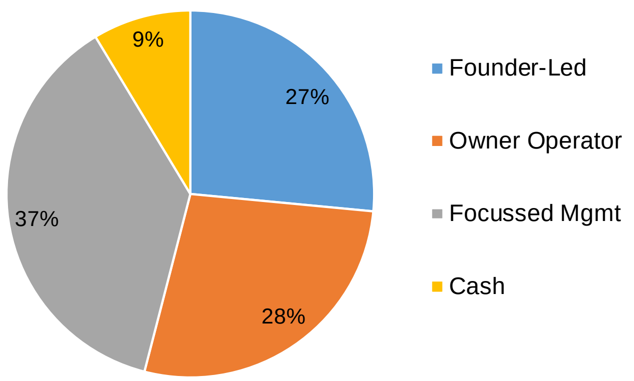
Currently the portfolio holds 8% cash.

Portfolio attributes as at Dec 2018 are summarized below:

	Portfolio*
Number of stocks	35
Beta	0.91
P/E (x)	16.1
Yield (%)	2.1
P/B (x)	3.1
Historical EPSg (%)	16.1
Forecast EPSg (%)	11.2
Return on Equity (%)	19.4
Dividend Cover (x)	2.9
Net Debt/Equity (%)	-9
Tracking Erros vs MSCI Asia ex Japan	3.72

Source: UBS PAS

Portfolio Breakdown by Management Type



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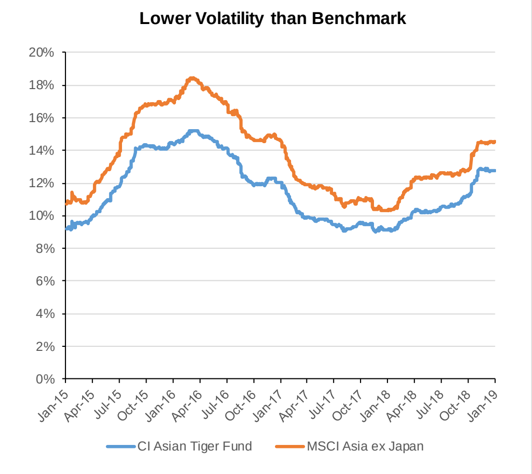
We believe the management types that produce the most attractive investment opportunities in Asia are 1) Founder-led, where the original founder aligns his/her interest with investors and remains committed to leading the business to bigger successes; or 2) owner operator, where the strong and unique culture permeates the organization, and 'thinking like an owner' becomes second nature to the management team.

Process

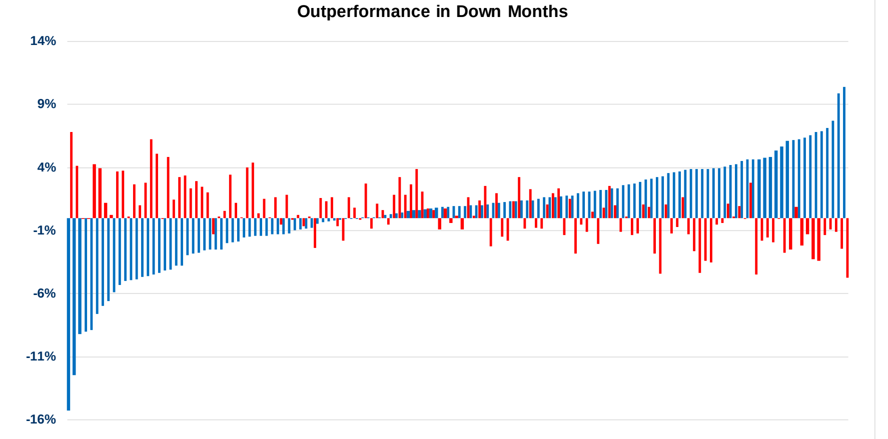
- The ATF stock selection process follows Cooper Investors' VoF philosophy
- The ATF aims to build out deep research, a high quality and extensive network, and proprietary data bases in our focused clusters
- A small, focused team travels to the Asia region, visiting high-quality management teams repeatedly. On average, we conduct 500+ company meetings and calls per year
- 150+ watchlist stocks provide a pool for new idea generation
- Active liaison with other CI funds and leverage CI's global networks. Leverage CI's well-resourced research platform and back office
- Risk controlled for balance of subsets of value and conviction
- Active positions and benchmark unaware

Portfolio Risk Metrics

The portfolio's volatility remains below that of our benchmark. The portfolio has outperformed ~80% of the time during down-market months. Outperformance this quarter is yet another example of this particular characteristic. We believe this is an outworking of the CI VoF investment process.



Note: Rolling 12m Volatility of Daily Returns (in AUD)



Note: Monthly returns are ranked from most negative to most positive.

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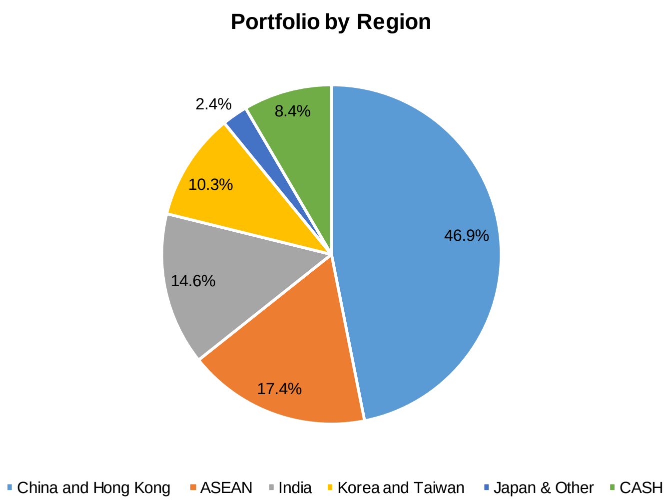
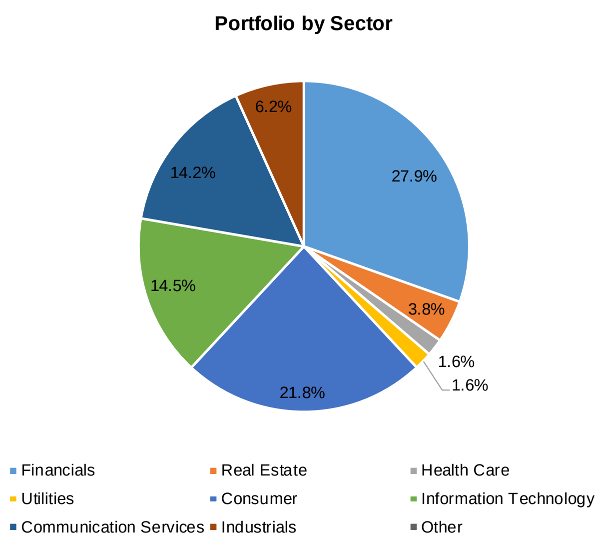
From a sector and country perspective, the ATF current exposure is as follows:





Recent Portfolio Changes

During the December quarter we initiated a position **in Hong Kong Broadband Network** ("HKBN"), the second largest residential and commercial broadband provider in Hong Kong. We have been following HKBN since its IPO in 2015 and met with its top executives, Mr. William Yeung and Mr. NiQ Lai multiple times. We are particularly impressed by HKBN's culture, which emphasizes purpose, passion, empathy and performance. For example, every year HKBN's top 100 management team members travel from its Hong Kong headquarters to the customer service centres in mainland China. They join live customer service calls over a course of multiple days to listen to the customer needs and incorporate these learnings in their work of setting corporate strategy and processes.

HKBN also put in place a thoughtfully constructed co-ownership structure that closely aligns the interest of its top 10% of employees with shareholders. Dividends are the main source of income for these employees, resulting in a sharp organization focus on free cash flow generation.

Operating trends are positive for HKBN after its recent merger with WTT, another enterprise broadband provider in Hong Kong. We believe combining a fast growing enterprise business and a stable residential 'cash-cow' division will grow free cash flows and dividends by 15% per annum over the next 3-5 years. Furthermore, HKBN's relatively new mobile business is gaining good traction, providing additional value latencies. HKBN is trading at 10x EV / EBITDA and 13x P/FCF, which we believe is an attractive valuation given its predicable and growing free cash flows.

We also initiated a position in **Telekomunikasi Indonesia** ("Telekom"), the largest telecom operator in Indonesia. Despite being majority owned by the government, the company is one of the most profitable telecom operators in Asia. Its mobile operation arm Telkomsel, which is 35% owned by Singapore Telecom, has nearly 70% revenue market share in Indonesia. We have been following Telekom closely since 2016, meeting its management every year. In 2018 alone, we travelled to meet Telekom management twice in Jakarta and also hosted senior management in our Melbourne office.

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Telkomsel is a long-term beneficiary of growing data consumption in Indonesia. We expect the intense competition that challenged the Indonesian mobile industry to ease and have observed signs of mobile tariff recovery starting in the September quarter. There are also value latencies in digital-related initiatives and in the parent company's fixed broadband business. Telekom is trading at 6x EV/EBITDA and 16x P/E, with a 4% dividend yield.

Stock News

Clear Media resumed trading on the 19th of November after a 7 month trading halt due to misappropriation of funds by a former employee. The Company made considerable progress addressing issues raised by its auditors and completed a round forensic investigation and internal reviews. We believe these actions considerably strengthened Clear Media's internal control system. We kept in close contact with management throughout the process, and met its Chairman and new CFO in Hong Kong in Sep 2018. Whilst we applauded management's resolve and swift actions, the operating trends for outdoor advertising in China had deteriorated over the course of 2018. We therefore decided to exit Clear Media.

Netease made considerable progress in launching new mobile games both in China and overseas. In China, its new PC game, *Justice*, and multiple mobile games such as *Ancient Nocturne* and *Night Falls*, attracted millions of gamers and recorded impressive revenues despite a sluggish overall gaming market. Internationally, its new mobile game, *Knives Out*, now consistently ranks top 10 amongst all mobile games in Japan. Netease also announced a partnership with Activision Blizzard to co-develop the mobile version of *Diablo*, one of the best known gaming franchises globally. International business currently contributes 10% of total gaming revenues and we expect this percentage to grow significantly in the next few years.

The Chinese pharmaceutical industry continued to face strong regulatory headwinds. In December 2018, the newly formed regulator, State Medical Insurance Bureau, announced the results of the first round of centralized procurement schemes in 11 large cities. The average price cuts for chemical generic drugs were over 50%, sending shockwaves across the stock market and driving share prices down nearly 30% in two weeks. We conducted a deep research project and concluded that whilst headline risks will persist, the innovative drugs, especially biosimilars, will not only be protected from price cuts but will continue to receive policy support. We applaud **3SBio** management's actions of ignoring external noises, focusing on running its business, investing in new drug development, and keeping clean inventory levels at its channels.

Trip and Meeting Notes

We noted in our September quarterly letter that the default of an Indian conglomerate, Infrastructure Leasing & Financial Services ("IL&FS"), triggered turmoil in the debt and stock markets. In October, we travelled to India and conducted thorough due diligence around this issue, meeting with banks, non-banking financial companies ("NBFCs"), asset managers and the Reserve Bank of India. We concluded that India should not experience a credit crisis similar to Lehman Brothers in 2008, as feared by some investors.

Over the past few years, NBFCs expanded rapidly, accounting for one third of incremental credit growth in India. Unable to take deposits, NBFCs fund their lending with short-term wholesale loans. When IL&FS defaulted on its obligations, investors feared that the wholesale lending window would close for the NBFCs, leading to systemic defaults. Over the December quarter, however, after decisive and swift actions taken by the government, lending to NBFCs returned to normal and all near-term debt obligations were repaid or rolled over. Going forward, we expect temporarily slower growth in the NBFC sector with potentially higher cost of funding and more regulations.

The portfolio held three investments in the Indian banking sector, and only one of these three companies was impacted by the IL&FS situation. **IndusInd Bank** has one bridge loan (equivalent to 1.2% of its total loan book) made to an IL&FS holding company, and another loan (1.5% of loan book) made to a special purpose vehicle ("SPV") under IL&FS to finance the construction of a large tunnel located in Jammu Kashmir. IndusInd Bank had made partial provisions for the bridge loan and is likely to make additional provisions in the upcoming quarters. The loan to the SPV remains in good standing. With the benefit of hindsight, issuing loans to the IL&FS holding company was unwise and we had extensive discussions with management on remedies going forward. For now, we do not expect the financial impact to extend beyond FY 2019 but will continue monitoring this position closely.

We hosted the Chief Strategy Officer from **Tencent** in our office in December. Tencent recently announced a major reorganization that aligns its plethora of internet properties along three main business lines – content, enterprise and advertising. We believe this re-organization will sharpen Tencent's strategy in these large business units. For example, combining the previously separately run brand and performance-based advertising under one business unit, led by the former performance-based ad team, sent a clear message internally that Tencent's advertising product will be driven by technology and data, and not by sales agents. We believe this reorganization can potentially re-accelerate Tencent's advertising and enterprise revenues. Additional value latencies for Tencent include margin stabilization as it transforms its video business from an advertising-based model to subscriptions, international gaming potential, and improvement of the regulatory environment as new game approvals resumed in China.

We also visited **Singapore Exchange**, which is increasingly positioning itself as a multi-asset international exchange and a gateway to the Asian financial markets. Over the past five years, the size of the exchange's derivatives business has doubled, offsetting the decline in the cash equities business. We believe the derivatives business continues to represent a large long term value latency. Additional latencies also exist in the potential expansion of its operating margins.

Team News

We welcome a new analyst to the team in January 2019. He has an impressive background from a top tiered research house and we are looking forward to the energy, passion and dedication that he brings.

Ms. Lyn Foo has resigned from CI. We thank Lyn for her hard work and contribution and wish her the best in her future endeavours.

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