CI ASIAN 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.

JUNE 2019

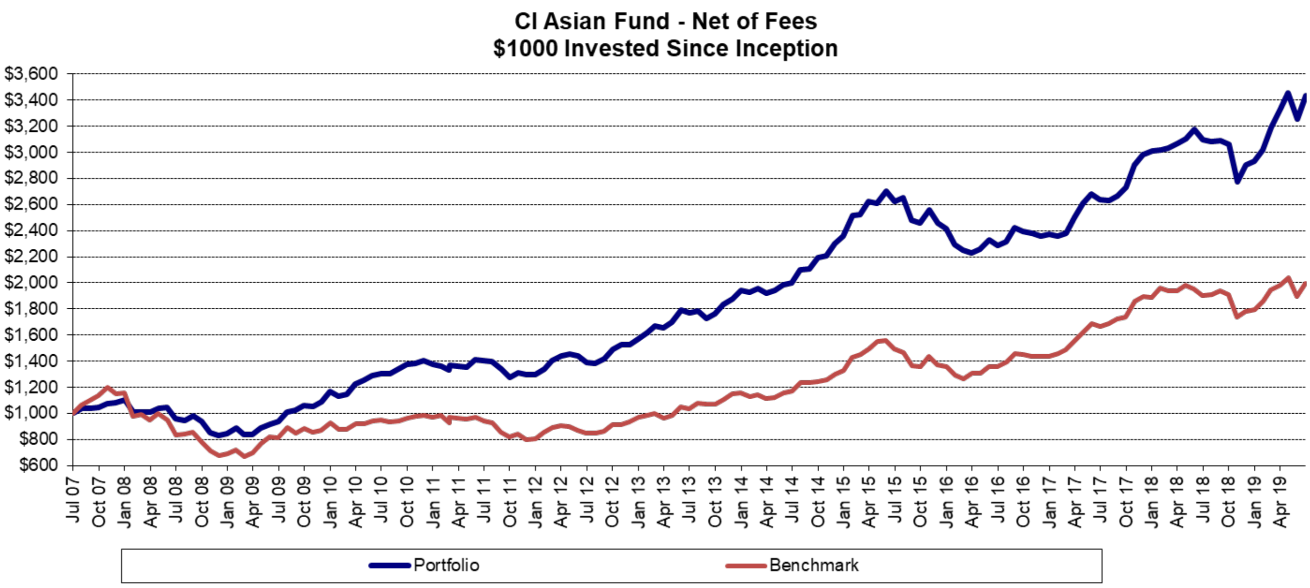
To travel is to discover that everyone is wrong about other countries – Aldous Huxley

All business on earth is management. In the hotel world – in any business world – you must look for three ingredients when you hire staff: talent, integrity and the stamina for hard work. If any of these are missing, forget the guy – Robert Kwok, "Robert Kuok: A Memoir"

The strongest corporate model is family owned but publicly traded and professionally managed – Ruchir Sharma, "Breakout Nations: In Pursuit of the Next Economic Miracles"

	****PORTFOLIO**	**#BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTH	3.84%	0.56%	3.28%
ROLLING 1 YEAR	11.97%	4.79%	7.18%
ROLLING 2 YEAR	15.26%	9.35%	5.91%
ROLLING 3 YEAR	15.80%	13.73%	2.07%
ROLLING 5 YEAR	12.90%	11.24%	1.66%
ROLLING 7 YEAR	15.40%	12.94%	2.46%
ROLLING 10 YEAR	15.88%	9.41%	6.47%
SINCE INCEPTION*	12.56%	5.92%	6.64%
SINCE INCEPTION^	313.47%	99.36%	214.11%

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



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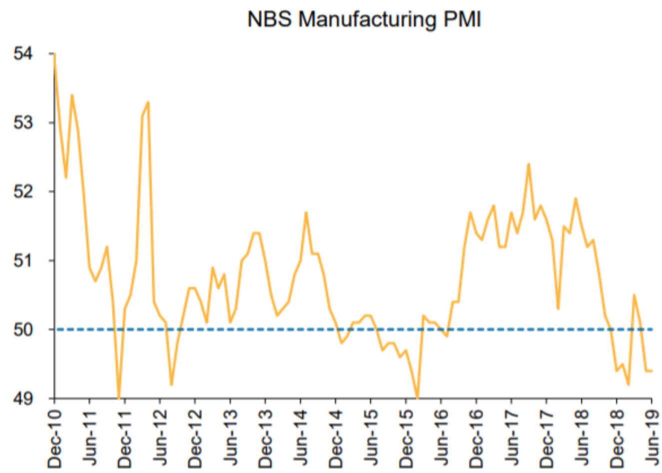
Market and Portfolio Performance

Volatility was high in the Asian markets during the June quarter as trade tensions returned. The market fell by over 700 bps in May but recouped most of the losses in June, ending the quarter marginally up at 0.56%. The portfolio gained 3.84% this quarter. For the financial year 2019, the portfolio gained 12%, compared to the benchmark return of 4.8%.

In China, one of the country's largest telecommunications equipment makers, Huawei, was put on the Export Administrative Regulations Entity List by the US government which has the effect of banning all US companies from selling to Huawei. We follow the news carefully as our watchlist includes a number of telecommunications carriers as well as Huawei's closest domestic competitor, ZTE. We believe Huawei has a key role to play in 5G deployment in China. We estimate that it is expected to supply 30-50% of all 5G network equipment in the country. An executive from one of our watchlist companies flatly stated, "I cannot imagine China can build a 5G network without Huawei". Given the mission critical status of 5G rollout in China, we believe the US and China will eventually agree on a long term solution for Huawei. As we write this letter, the US government has temporarily lifted the ban as trade negotiations continue. The portfolio does not have holdings with large direct exposure to 5G buildout in China. We do, however, hold a number of high quality Chinese internet companies, which we believe will benefit from network speed upgrades and the proliferation of the Internet of Things.

The broader trade talks between the US and China continued with many twists and turns during the quarter. Leaders from the two countries seemed to come close to an agreement in March, before the negotiation broke down over issues such as enforcement of IP protection in April, but resumed again after top leadership met at the G20 summit in June. The uncertainty not only caused wild swings in the capital markets, but also put a brake on the economic recovery in China. The manufacturing Purchasing Manager Index ("PMI") retreated back to contractionary territory after a brief rebound in March.



Source: Wind, Macquarie Macro Strategy, June 2019

Despite the back and forth of trade talks, we continue to observe positive operating trends in the high quality companies that address the needs of domestic consumers. The underlying demand is particularly resilient for businesses that offer good value for money. For example, we understand our sportswear holdings, Anta and Li Ning, grew their revenues well over double digits for the first half of 2019. Even a mega platform like Alibaba, with transaction volume rivalling the GDP of Turkey, recorded nearly 20% growth in 2018 and no sign of sharp slowdowns. As of June 30th, over 75% of our portfolio companies sell to domestic consumers.

Moreover, when we meet with management of these companies, they are laser-focused on creating the best products and experiences for their customers. No time is spared guessing which direction the wind of trade war will blow next. We intend to follow their example in our daily work.

For the 3 months and financial year ended on June 30th 2019, our China and Hong Kong portfolio holdings contributed 1.93%and 4.50% to outperformance, respectively.

In India, Prime Minister Modi's BJP-led coalition, National Democratic Alliance ("NDA") won a landslide victory in the May 2019 election. The NDA won even more seats than during the last election in 2014. With an absolute majority (353 seats of the 543-seat lower house), NDA is more likely to carry out economic reforms instead of caving to populism. We are optimistic that the new government will continue with many positive policies such as the clean-up of public sector banks, formalisation of the economy and rural support. For example, we are already seeing better compliance around GST collection.

However, we also recognize that there is a lot of work to do – the first term of the Modi government has left much to be desired in areas such as employment creation and rural economic growth. We also observe weaknesses in quite a number of broad economic indicators such as auto sales, imports, and rail freight movements.

We remain confident of our current portfolio holdings in India of high quality banks and IT services companies. In banking, private sector banks continue to gain share from public sector banks by offering superior customer services and expanding into rural /semi-urban areas. Over the past twelve months, the total branch network of private sector banks grew by 12%, a stark contrast to a decline of ~1% of the public sector banks. On the management front, our portfolio companies of HDFC Bank and City Union Bank remain in steady hands. However, a few large private banks (which we do not currently own) such as ICICI, Yes Bank and Axis Bank went through senior management changes. We are actively monitoring these new management teams; over time we could see a few turnaround candidates from this cohort.

The Indian IT companies continue to enjoy a favourable demand environment. We continue to observe accelerating revenue growth with steady margins across the sector. New deal wins also remain strong for major IT companies, some of whom described the demand outlook as 'the strongest that we have seen over the past 18 to 24 months".

For the 3 months and financial year ended on June 30th 2019, our Indian portfolio holdings contributed 0.86% and 0.09% to outperformance, respectively.

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

- **Techtronic** (positive operating trends; relief from tariff concerns due to trade tension)
- **WNS** (positive demand environment and solid execution in key verticals such as insurance)
- **Home Product Center** (positive operating trends)
- **HKBN** (new employee incentive scheme sets confident targets for the next three years)
- **Ping An Insurance** (solid progress in the protection life insurance products)

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

- **Autohome** (continued weakness in the auto industry - however, we believe Autohome will continue to execute its own strategy well even with the underlying industry headwinds)
- **3SBio** (concerns around potential regulations - we believe 3SBio is largely immune to the near term regulatory pressure)
- **Unicharm** (uninspiring quarterly result - we believe the long term trends remain positive)

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

Strategy

- The 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 is to find a portfolio of stocks in Asia with the best risk-adjusted value latencies across six 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
- The strategy tends to outperform in down-markets

Structure

- Concentrated, long-only, long-term equities portfolio with 30-50 stocks
- Portfolio companies with risk adjusted value latencies across six 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

As of June 30th 2019 the portfolio is positioned around six subsets of value as follows:

- **Stalwarts (44%)** - sturdy, strong and generally larger companies with world class privileged market and competitive positions.
- **Growth (35%)** – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management.
- **Cyclicals (5%)** - stocks showing upside leverage to the cycle with experienced and contrarian managers who can allocate capital prudently and with good balance sheets.
- **Asset Plays (2%)** - stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value.
- **Low Risk Turnarounds (4%)** - sound businesses with good management in place and good balance sheets. We especially like spin offs and government to private turnarounds.
- **Bond-Like Equities (2%)** - businesses with secure, low-volatile dividends that can be grown and recapture inflationary effects over time.

The portfolio holds 8.7% cash.

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Portfolio attributes as at June 2019 are summarized below:

	Portfolio*
Number of stocks	41
Beta	0.94
P/E (x)	19.6
Yield (%)	1.8
P/B (x)	3.2
Historical EPSg (%)	16.9
Forecast EPSg (%)	12.7
Return on Equity (%)	16.2
Dividend Cover (x)	2.8
Net Debt/Equity (%)	-15
Tracking Erros vs MSCI Asia ex Japan	3.43

Source: UBS PAS

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. Over 50% of our portfolio companies are under the leadership of these two management types.

Portfolio by Management Type	
Founder Led	24%
Owner Operator	29%
Focussed Management	39%
CASH	8%

Process

- The stock selection process follows Cooper Investors' VoF philosophy
- We aim 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

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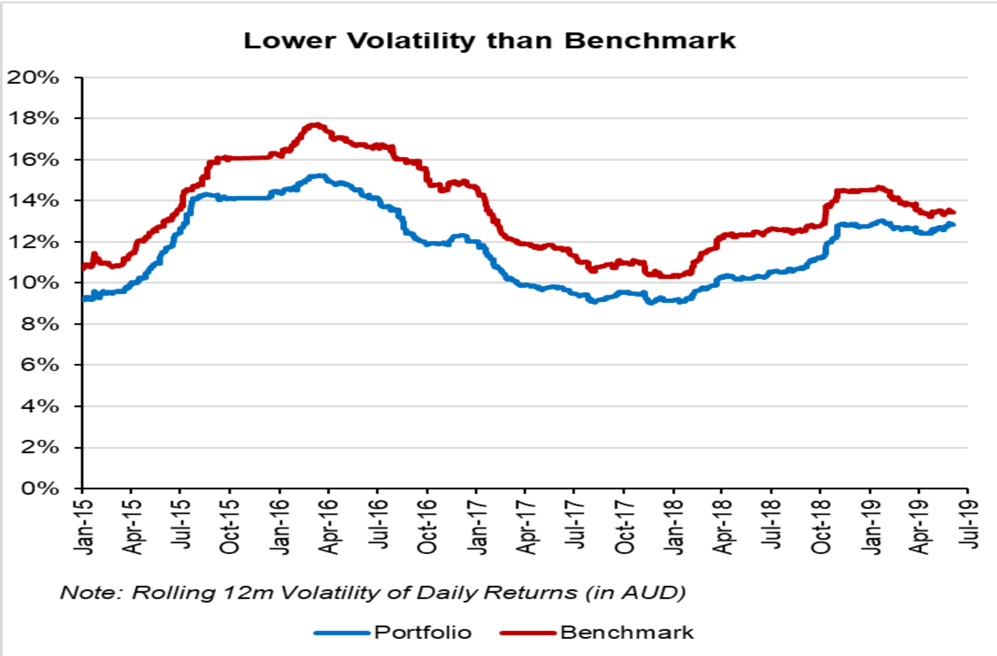
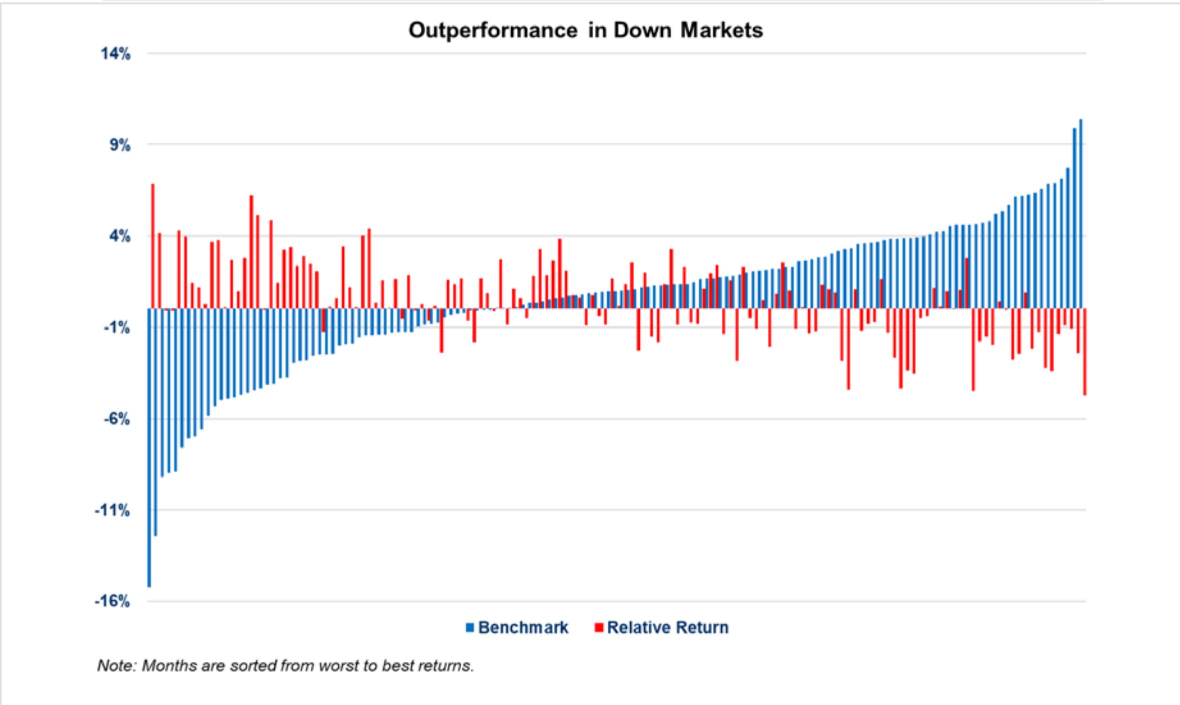
Portfolio Risk Metrics

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





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

Portfolio by Industry Sectors	
Financials	27.4%
Consumer	22.5%
Communication Services	14.3%
Information Technology	13.1%
Industrials	5.8%
Real Estate	4.3%
Health Care	2.6%
Utilities	1.3%
CASH	8.7%

Portfolio by Country	
China and Hong Kong	52.3%
ASEAN	14.2%
India	12.6%
Korea and Taiwan	7.6%
Japan & Other	4.6%
CASH	8.7%

Recent Portfolio Changes

We initiated a position in **Hong Kong Exchanges & Clearing** ("HKEx"). HKEx enjoys a monopolistic market position. By law Hong Kong has only two recognized exchanges – Stock Exchange of Hong Kong Limited and Hong Kong Futures Exchange – and they both fall under the umbrella of HKEx. A classic Stalwart, HKEx has been part of the Asian Fund watchlist for a number of years and we have visited senior management frequently. We believe HKEx is one of the most dynamic exchanges in the world, with a number of exciting value latencies.

As the natural gateway connecting the Chinese capital markets to the world, HKEx is a major beneficiary of the internationalisation of the Chinese financial system. The near term operating trends are positive as a product that allows foreign investors to buy Chinese domestically listed equities, known as the 'stock connect program', is seeing robust growth. Later in 2019, HKEx will launch another promising new derivative product that tracks the Chinese domestic markets. In the medium to long term, HKEx has a rich product pipeline in fixed income, commodities and data. HKEx is trading around its historical average of ~31x forward 12-month FCF for a base case of ~10% growth that could accelerate as these new initiatives come on line.

We also initiated a position in **Li Ning**, a sportswear maker in China. Li Ning belongs to the 'Low Risk Turnaround' Subset of Value. A near decade-long turnaround effort at Li Ning has finally started to bear fruit. Since the company's eponymous founder and chairman returned to full time management of the company in 2012, Li Ning has cleaned up excess channel inventory, significantly improved its supply chain, and stepped up much-needed investment into product and branding. With Chairman Li and his team having completed most of the heavy lifting by stabilising operations, they have laid the foundation for the company to now focus on growth and profitability. Li Ning's margins remain depressed relative to its own history and other sportswear peers and we think there is a substantial opportunity to close this gap. Li Ning, like fellow portfolio holding **Anta Sports,** is also a beneficiary of the rapid growth of the sportswear market in China. Furthermore, we are also excited about the company's new growth initiatives in kids' wear and their new premium sports casual brand 'China Li Ning' which are showing early signs of promise. Li Ning trades at ~28x FCF for 25% growth over the next three years.

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We wrote in our previous letters about high quality companies that are listed outside of Asian exchanges but successful at selling to Asian consumers. The CI Global and Asian Funds are well positioned to research these companies with our global reach and local, on the ground observations. The Asian Fund initiated a position in **LVMH Group** in conjunction with the CI Global Endowment Fund in the June quarter. Both funds have been following the luxury industry for some time. As the leading luxury company, LVMH enjoys the benefits of rising Asian consumer wealth, is run by a world class management team, and has low single product risk as it is diversified across fashion and leather goods, jewellery, wines and spirits and watches. Nearly half of LVMH's customers live in Asia and they are one of the main drivers behind an impressive 5-year revenue CAGR of 10%.

Today the LVMH holding company runs a decentralised model with around 70 brands or 'Maisons' run by brand managers who are given creative and commercial autonomy. What is perhaps unappreciated about LVMH is the extremely tight operating model. As befits a group selling to people who demand the finest, nothing about the way LVMH is managed could be described as 'sloppy'. Consider that Vuitton (the largest brand in the group) is entirely vertically integrated, from raw material procurement all the way to the owned retail stores. This control of sourcing to the consumer makes LVMH highly profitable (30% EBITDA margins) and highly cash generative (Free Cash Flow conversion typically >100% of profit).

CEO and major shareholder Bernard Arnault (also the world's 3rd richest man, as an indication of his ability as a money-maker) has an exceptional track record of buying brands and building them globally by leveraging the scale of the broader group. He is also shareholder friendly, having rewarded minorities over the years not only through wealth creation but through corporate actions such as the distribution of Hermes shares and the premium paid in acquiring Christian Dior. He has proven a master in understanding the power of building and protecting enduring brands. While many luxury houses have placed their core brands on aggregator websites such as Farfetch and Net-a-Porter Mr. Arnault has resisted the temptation to put Vuitton or Dior on any wholesale ecommerce platforms. Having a direct customer relationship, controlling the customer's data and controlling pricing is paramount. Yet despite zero selling presence on Chinese websites like Tmall (Alibaba) and JD.com the brand Louis Vuitton consistently ranks in the top ten for active WeChat and Weibo followers, a key barometer of reach among Chinese celebrities and key opinion leaders.

As a Stalwart LVMH should provide high single digit earnings growth through organic sales and operating leverage plus dividends. The balance sheet is in strong shape with barely any debt at group level.

Stock News

Hong Kong Broadband Network announced a new management incentive program that set the target for cumulative adjusted fund flow ("AFF", similar to dividends per share) at HK$2.5 to HK$3 over the next 3 years. This translate to an impressive 20% CAGR in dividend growth and a 7-9% dividend yield by 2021. HKBN operates on a unique scheme where eligible employees need to invest their own money to buy the shares now, and receive matching stock grants equivalent to between 0 to 1.33x of the shares they purchase after the AFF goals are achieved. We salute management's efforts to align their long term interests to the shareholders and remain confident in their ability to achieve these goals.

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Li Ning issued a positive profit alert, expecting profits from continuing operations to grow by greater than 90% on a year over year basis for the first half of 2019. Better-than-expected performance in kids' wear and new premium store format ("China Li Ning"), as well as improvement of wholesale margins contributed to the posive results. Whilst we are pleasantly surprised by the near term operating trends, we believe the long term improvement in Li Ning's brand image and operational capabilities are even more exciting.

Trip and Meeting Notes

We travelled to Hong Kong during the June quarter. One of the notable meetings was with **Hong Kong Stock Exchange**. Consistent with our previous meetings, management exudes dynamism and focus. We could also feel that the success of stock connect and the upcoming launch of various derivatives products are re-invigorating general trading velocity in Hong Kong. The potential of large technology companies from China seeking a dual listing or returning to the Hong Kong market further galvanize management and staff.

We hosted **Alibaba** management in our Melbourne office. The conversation pointed to positive operating trends for Alibaba's core business. Transaction volume remains very strong, and potential new monetization initiatives could further propel revenue growth. There are also early signs on investment discipline, with its long tenured and conservative CFO now in charge of strategic investments.

We also travelled to Delhi and Mumbai this quarter. Our trips deepened our network with existing portfolio companies. For example, we spoke with the heads of businesses in Insurance and Healthcare verticals within **WNS**. We were impressed by the level of talents that have moved to WNS from other large international companies in the past few years – both senior executives had decades of experience in international companies before joining WNS. We also gained deeper understanding of how WNS built up significant vertical expertise by investing early and thoughtfully. For example, while its competitors are largely generalists, WNS was hiring verticalized teams in insurance that required every person, down to junior technology staff, to have an insurance background.

We also had the pleasure of meeting with the CEO of **City Union Bank** in Melbourne. We have been following City Union Bank closely since 2011. We came away with a lot of confidence in its risk management and future growth. We found the CEO, Dr Kamakodi, intelligent, experienced, and passionate about what he does. City Union Bank belongs in the "1950s banking' cluster within Cooper Investors' portfolio stocks. Similar to First Republic Bank in the U.S. or St. James Place in the U.K., City Union Bank focuses on providing the best old-fashioned banking service. As Dr. Kamakodi simply puts it - "We do the boring business that banking has always been about".

Our global team travelled to Milwaukee, Wisconsin (USA), Paris, and Tokyo during this quarter and came back with positive observations for **Techtronic, LVMH and Unicharm**. The visit to Techtronic's Milwaukee Tool headquarter was particularly noteworthy. Consistent with what we observe from top management meetings, the employees at the plant are focused, with everything being thought out with one overarching purpose to bring the best solutions to professional work sites. The atmosphere also feels more like a Silicon Valley company rather than a manufacturer. In general, we were pleased to combine the management visits by our global team with our on the ground observations on the Asian consumers. Over the quarter and fiscal year 2019, these companies contributed positively to outperformance for the Asian Fund investors.

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