CI ASIAN TIGER FUND
QUARTERLY COMMENTARY REPORT

COOPER INVESTORS

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

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

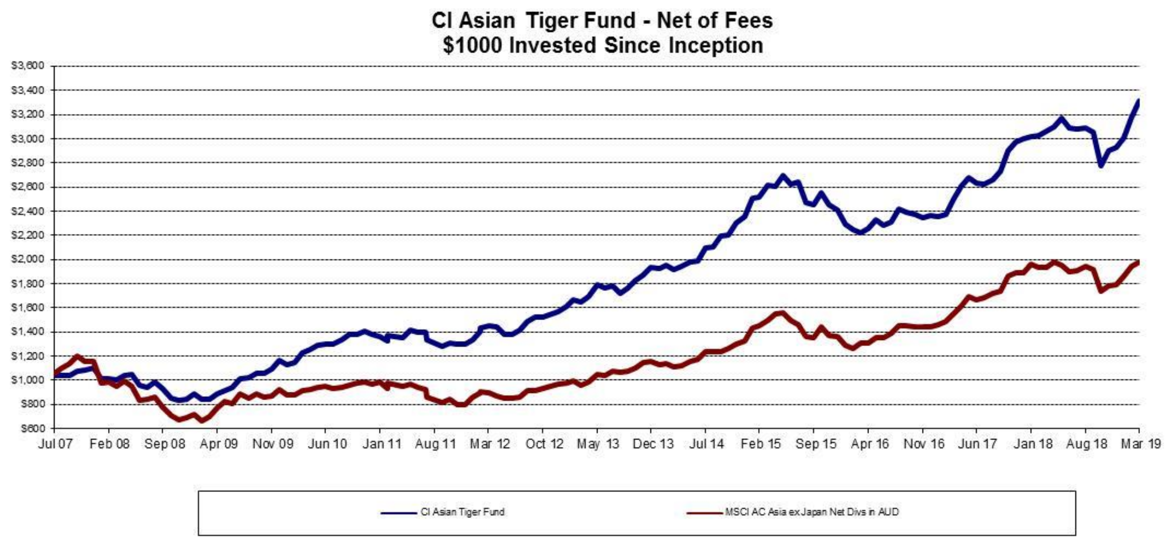
MARCH 2019

Whenever you see a successful business, someone once made a courageous decision. – Peter F. Drucker

Courage doesn't always roar. Sometimes courage is the little voice at the end of the day that says I'll try again tomorrow. – Mary Anne Radmacher

	****PORTFOLIO**	**#BENCHMARK**	**VALUE ADDED**
ROLLING 3 MONTH	13.16%	10.43%	2.73%
ROLLING 1 YEAR	9.19%	2.35%	6.84%
ROLLING 2 YEAR	16.39%	13.18%	3.21%
ROLLING 3 YEAR	15.49%	14.91%	0.58%
ROLLING 5 YEAR	13.01%	12.27%	0.74%
ROLLING 7 YEAR	14.23%	11.89%	2.34%
ROLLING 10 YEAR	16.80%	10.98%	5.82%
SINCE INCEPTION*	12.48%	6.00%	6.48%
SINCE INCEPTION^	298.19%	98.25%	199.94%

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



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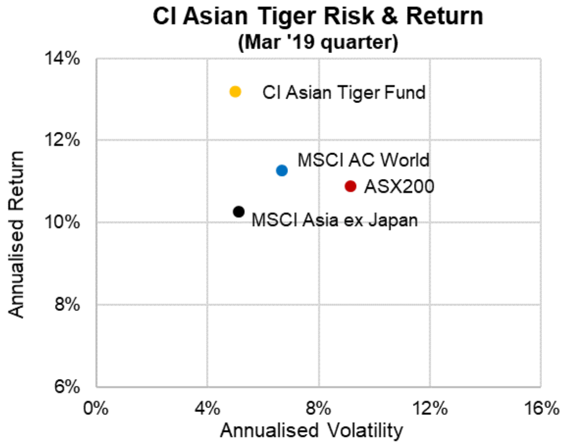
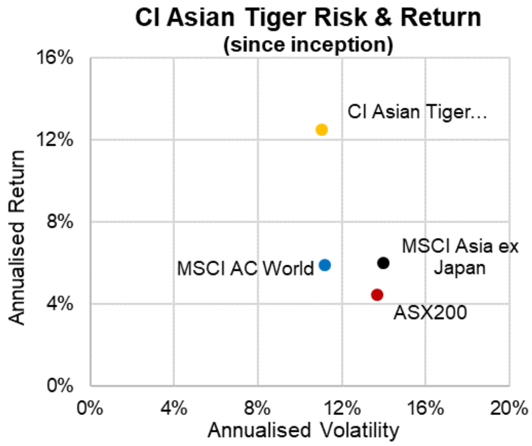
Market and Portfolio Performance

The Asian market staged a strong comeback alongside major stock indexes during the March quarter, recording a 10.4% gain and erasing the 4.9% loss in calendar year 2018. The ATF gained 13.2% this quarter. The relative outperformance was mainly driven by stock selection.





	% Mar Qtr Return	PER (x) 2019	PER (x) 2020	EPS Growth (%) 2019	EPS Growth (%) 2020	ROE	Dividend Yields
Major Asian Markets							
Asia Ex Japan	10%	11.3	10.1	6%	12%	12%	3%
China	17%	10.3	9.0	12%	14%	13%	2%
Hong Kong	15%	13.9	12.7	8%	9%	10%	3%
India	6%	17.7	15.0	20%	18%	13%	1%
Indonesia	3%	15.0	13.5	12%	11%	16%	2%
Korea	4%	8.0	7.2	(4%)	10%	12%	3%
Singapore	5%	11.6	10.8	4%	8%	10%	4%
Taiwan	8%	12.6	11.4	1%	11%	13%	4%
Global Comparisons							
US	13%	14.9	13.4	7%	11%	16%	2%
UK	11%	11.6	10.8	5%	7%	12%	5%
Europe	10%	12.1	11.1	8%	9%	11%	4%
Australia	10%	14.1	13.6	4%	4%	13%	5%

Source: Factset

In China, the government stepped up the accommodating policies that we wrote about in our December quarterly letter. The central bank cut the level of cash that banks are required to hold twice during January 2019, releasing additional lending for the economy with a focus on small and medium businesses instead of large state-own enterprises. The government also announced reductions for both value-added taxes and required employer social insurance contributions. These tax cuts could translate into meaningful business savings. For example, one of the supermarket operators on our watchlist estimated that it is already saving 5% of profit from lower taxes.

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We believe these policies have started to work their way through the economy and boosted confidence in businesses and consumers. Notably, the manufacturing Purchasing Manager Index, an indicator of economic health for manufacturing and service sectors, rebounded to 50.5 during March and out of contraction territory. While we do not predict macroeconomic trends, we believe this is an encouraging early sign for a broader economic recovery.

Policies for our focused industry sectors also continued their favourable trends. In gaming, new game approvals re-started after a nine-month freeze during 2018. Nearly 1,000 new games have been approved year to date, including 30 foreign games. For our portfolio companies Tencent and Netease, a more benign regulatory environment certainly improves the near term operating trends, but over the long run what matters more is their ever-improving ability to create and distribute high quality content. During the industry downturns, Tencent and Netease management kept their heads down, complied with various new regulatory requirements, sought opportunities outside of China and quickly achieved notable successes in Japan, US and Europe. The resilience, resourcefulness, and rapid pace of execution are hallmarks of many of the Founder-led companies that we invest in at the ATF.

In healthcare, the much-feared centralized procurement scheme faced strong opposition from both the pharmaceutical industry and the doctors' community. As a result, the same steep price cuts are unlikely to extend beyond the initial testing cities. Furthermore, the national insurance plan expands its coverage to a wider range of drugs, making them affordable for the public and accelerating volume growth of these drugs substantially. We remain positive on the long term aspect of the Chinese pharmaceutical industry.

For the 3 months ended on March 31st 2019, our China and Hong Kong portfolio holdings contributed 2.72% to outperformance.

In India, following recent military tension with Pakistan, polls showed a substantially increased chance of victory for Prime Minister Modi's BJP-led coalition, National Democratic Alliance. We welcome this outcome as we believe many of Prime Minister Modi's initiatives such as GST and bankruptcy law reforms have positive long term impact on the economy. In particular, GST reforms bring more economic activities to the formal banking sector and benefit our portfolio bank holdings.

We had extensive conversations on the election with companies and political reporters in India. We believe polls in India could be notoriously inaccurate. The change in public political narrative could push potential allies towards the BJP but it could also lead to greater consolidation within the Opposition. The outcome of the general election remains a key near term risk for the Indian markets.

The Reserve Bank of India ("RBI") announced a surprise rate cut in February and shifted its stance from 'calibrated tightening' to 'neutral'. The RBI's continued accommodative stance was received positively by the equity markets.

Despite positive developments on multiple fronts, Indian equities' allocation in Asia ex-Japan indexes and emerging indexes remain low (see chart below). India has been a key contributor to the outperformance of the ATF portfolio since inception. We will continue investing proactively in on-the-ground relationships and seek companies with the best risk-adjusted value latencies.

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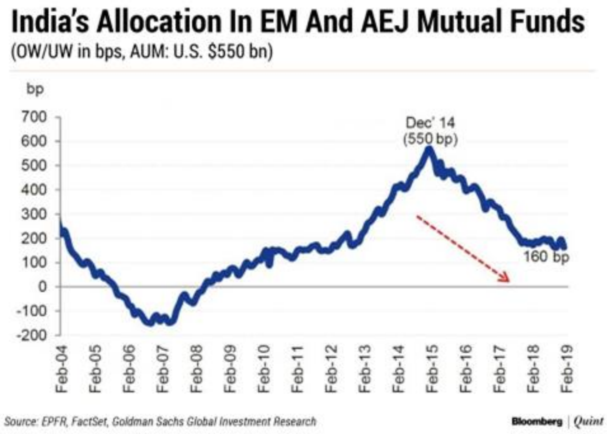

We remain very positive on our private Indian bank holdings. We believe the general liquidity in the banking sector will improve with a more proactive RBI and strengthening of GST compliance. Furthermore, competition from non-bank financial companies lessened after the default of IL & FS Group, shifting loan pricing power back to the banks. Regardless of the election results, the private banks in India offer superior services to their public sector peers, and are well positioned to gain share from these public sector banks which still command over 60% market share.

We have also ramped up our work on the Indian IT services industry, and we believe this is a sector relatively immune to the domestic political uncertainties as the vast majority of revenues are generated in the US and Europe. We are also positive on the trend of these IT services industry transforming from mere outsource labour providers to sophisticated IT solutions providers.

For the 3 months ended on March 31st 2019, our Indian portfolio holdings contributed 0.1% to outperformance.

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

- Anta (positive operating trends of core business; enhanced investor confidence in Anta's ability to make Amer brands successful in China)
- 3SBio (removal of regulatory overhang; solid earnings momentum; announcement of cooperation with high quality biosimilar companies outside of China)
- Autohome (positive operating trends; good execution despite headwinds from auto industry slowdown)
- WNS (positive operating trends assuage investors' concerns on slowing demand)

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

- Central Pattana (concerns on new joint development project cannibalizing CPN's flagship property Central World)
- Indusind Bank (lacklustre operating trends during 4Q'18; concerns around its losses from IL&FS related loans)
- City Union Bank (sector-wide pressure on Indian banks. We believe CUB remains a solid and resilient bank)

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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 outperform in down-markets
- 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

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

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

- **Stalwarts (41%)** - sturdy, strong and generally larger companies with world class privileged market and competitive positions.
- **Growth companies (37%)** – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management.
- **Cyclicals (4%)** - 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 (3%)** - sound businesses with good management in place and good balance sheets. We especially like spin offs and government to private turnarounds.
- **Bond-Like Equities (3%)** - businesses with secure, low-volatile dividends that can be grown and recapture inflationary effects over time.

Currently the portfolio holds 8% cash.

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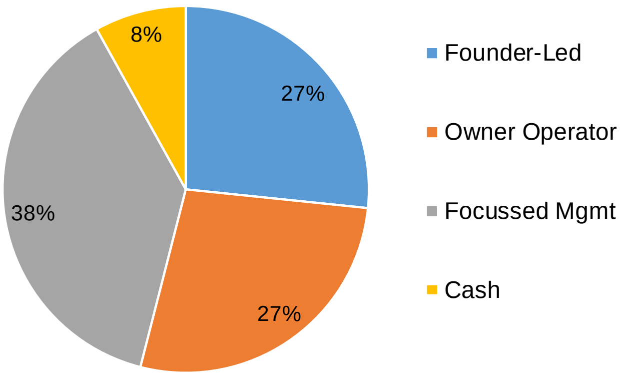
Portfolio attributes as at March 2019 are summarized below:

	Portfolio*
Number of stocks	38
Beta	0.94
P/E (x)	18.9
Yield (%)	1.8
P/B (x)	3.0
Historical EPSg (%)	15.7
Forecast EPSg (%)	10.8
Return on Equity (%)	16.1
Dividend Cover (x)	3.0
Net Debt/Equity (%)	-8
Tracking Erros vs MSCI Asia ex Japan	3.70

Source: UBS PAS

Portfolio Breakdown by Management Type



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

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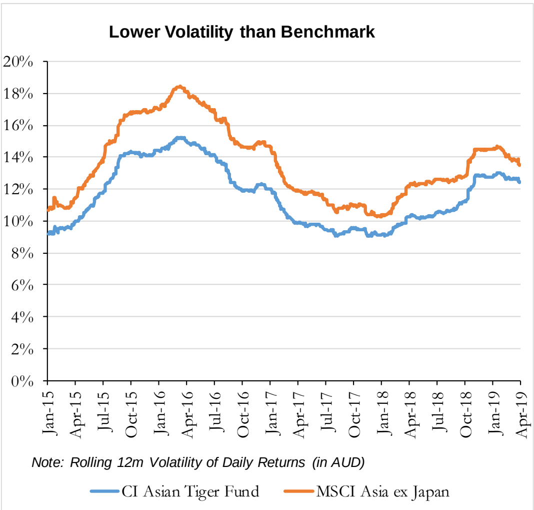
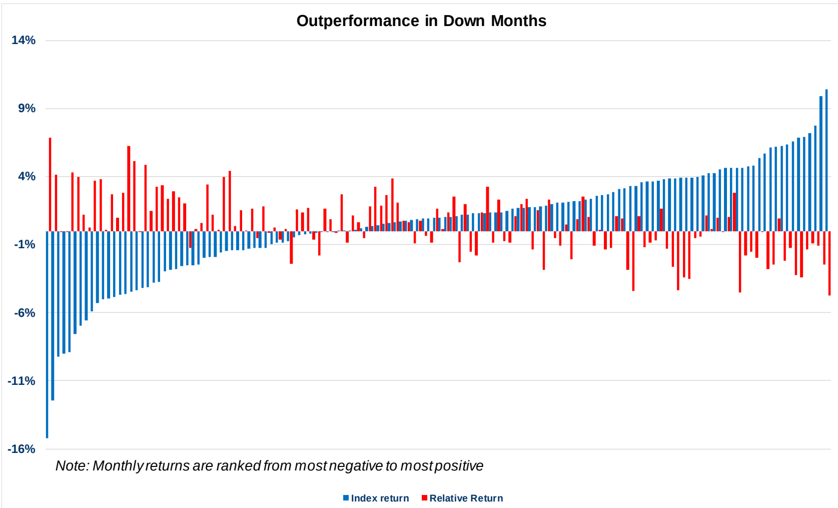
- A small, focused team travels to the Asia region, visiting high-quality management teams repeatedly. On average, we conduct 500+ company meetings and calls per year
- 150+ watchlist stocks provide a pool for new idea generation
- Active liaison with other CI funds and leverage CI's global networks. 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

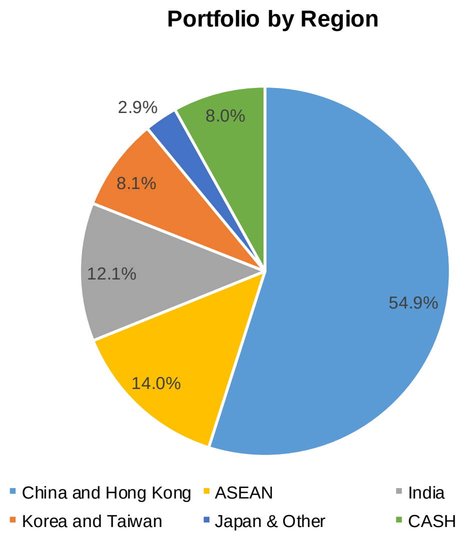
Portfolio Risk Metrics

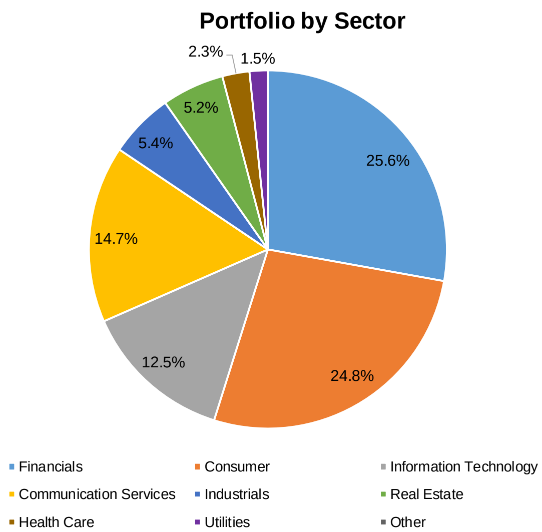
The portfolio's volatility remains below that of our benchmark. The portfolio has outperformed ~80% of the time during down-market months. We believe this is an outworking of the CI VoF investment process.





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





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Recent Portfolio Changes

We wrote in our December quarterly letter that we saw a long list of stocks with attractive risk-adjusted value latencies. We initiated 4 new stocks in the ATF as well adding to our highest conviction investments during the March quarter. These stocks have been on the ATF watchlist for an extended period of time and we have met their top management repeatedly over the past few years.

We initiated a position in **Link Real Estate Investment Trust** ("Link"). Link is a focused, internally managed retail mall operator in Hong Kong. It has built up deep expertise in operating neighbourhood retail malls (i.e., non luxury) post its privitization in 2007. Link entered China in 2015 and has acquired four retail malls in first tiered cities. Its China strategy was perceived as more risky than its core Hong Kong operations. We have followed Link closely for years, and established good relationships with its Chief Strategy Officer as well as Head of Asset Management in China. We have also analysed in detail every Link mall tenant in Beijing and Guangzhou. We concluded that these are solid properties with favourable tenant mix. For example, Nike and Adidas are amongst Link's largest tenants in these malls and both expanded store footprints after Link took over. Link belongs to the "Bond-Like Equities" Subset of Value. It has a dividend yield of 3% and we project its dividend per share to grow at a healthy clip of ~10% per annum over the next few years, with additional latencies from further property sales in Hong Kong, share buybacks and better than expected free cash flows from its China properties.

We also initiated a position in **Sun Art**, a hypermarket in China. Sun Art belongs to the 'Low Risk Turnaround" Subset of Value. Together with its large shareholder, Alibaba, Sun Art had invested aggressively in upgrading its stores and enabling fast and efficient online delivery. It is also shrinking its store size, focusing on the profitable category of fresh food and de-emphasizing categories with steep online competition such as home appliances. Investor debates focus on whether online delivery could be a profitable venture for Sun Art. We believe it is too early to predict the future of online delivery; but we do observe very meaningful improvements in Sun Art's product assortments, staff morale and customer satisfaction from our repeated visits to Sun Art's new format stores over the past 12 months. We had also met with Peter Huang, Sun Art's CEO, and found him a humble, energetic, capable and authentic leader.

In addition, we initiated a position in a game live broadcasting company and a dominant Chinese online classifieds company during the March quarter. We believe both companies are gaining share in their respective market segments via innovation and solid execution. In addition, they are likely to benefit from improving regulatory environments as well as cyclical recovery in the housing industry over the next few years.

Stock News

3SBio entered into two interesting international partnerships. The first partnership is with Samsung Bioepis, an associate of Samsung Biologics. The collaboration will start with a late stage biosimilar lung cancer drug (biosimilar to the blockbuster cancer drug of Avastin). The second partnership is with Taiwan TLC, a speciality pharmaceutical company focusing on novel nanomedicines. Over time we expect 3SBio to bring more of its international partners' high quality, globally accepted drugs to China. 3SBio plans to use overseas clinical data to accelerate the Chinese regulatory approval process, bringing these new products to market as early as in 2020. We remain optimistic on both 3SBio's existing portfolio and future pipeline.

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95% of Amer's shareholders approved the acquisition of Amer by **Anta** in March 2019. With the deal now closed, we expect Anta to focus on developing and growing the key brands under Amer globally. We believe quite a number of these brands, such Arc 'tyrex, Salomon and Wilson, have the potential of growing footprints and profitability in China significantly. In addition, Anta plans to increase advertising investments for Amer's key brands outside of China. We look forward to the revitalization of these brands under Anta's leadership.

Trip and Meeting Notes

We travelled to India during the March quarter and met with various banks, IT service companies and political journalists. The high quality private banks are tracking well, especially **HDFC Bank**. Retail deposits at HDFC continue to grow at a healthy clip and steadily achieve market share gains from public sector banks. The Company's efforts in penetrating into rural and semi-urban centres are paying off - in some states its market share gain was as high as 19%. HDFC is also well positioned to gain share in small-and-medium business lending where its current market share is relatively low at only ~8%. Risk management remains prudent as HDFC continues its policy of proactive provisioning. For example, it made accelerated provisioning against agriculture loans, despite historically much better than industry average performance in these high risk segments.

We travelled to Singapore and met with the head of cash equities and fixed income at **Singapore Exchange**. We continue to believe there are multiple growth drivers for Singapore Exchange, including daily leveraged certificates and secondary/dual listing. We believe the Company is replicating what it has done in derivatives to cash equities by attracting domestic and overseas traders to transact in instruments whose underlying securities are listed outside Singapore. For example, Tencent and Ping An are among the initial 20 long/short daily leveraged certificates.

We had various discussions with internet companies in China including **Autohome**, **51Jobs**, **58.com**, and **Baidu**. In general, we observed better discipline in spending and capital expenditures as mobile user growth slowed and underlying industries such as real estate and automobile experienced downturns. Capital efficiency is also improving, as non-essential subsidiaries and assets are spun off or sold. We remain positive on the long term aspects of these internet companies and believe they will become more focused and profitable organizations over time.

We also travelled to Kagawa Prefecture in southern Japan to attend the AGM of **Unicharm** (we were the first and only *gaijin* – foreigner - to have ever attended the event). Unicharm is a Family-Linked Company run by the second generation Takahisa Takahara. It sells baby diapers and sanitary napkins across Asia. We observe this entrepreneurial culture being alive and well within Unicharm today as they continue to take risks, innovate and enter new markets with a relentless focus on execution.

Team and Other News

Myron Xie joined the team as an analyst. Myron worked in the Global Investment Research team at Goldman Sachs in Singapore and Sydney prior to CI. He also interned with Fidelity in Singapore. Myron graduated from Monash University with dual degrees in Commerce and Law.

Following a review of the increased liquidity of the stocks held in the portfolio, we are pleased to inform our investors that, from 1 April 2019, the Transaction Costs applicable to Applications and Redemptions in the Fund have been reduced from 0.5% to 0.3%.

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