# COOPER INVESTORS ASIAN EQUITIES FUND

COOPER INVESTORS

AFS LICENCE NUMBER 221794
ABN 26 100 409 890

## QUARTERLY COMMENTARY REPORT

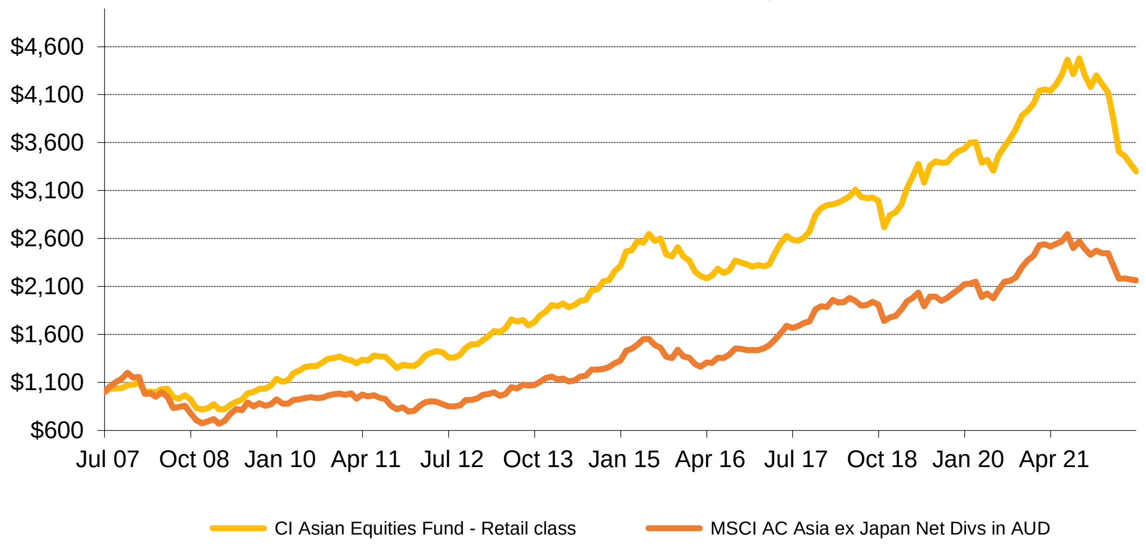
For current performance information please refer to the Monthly Performance Report.

## JUNE 2022

| Cooper Investors Asian Equities Fund (Retail Class) | **PORTFOLIO | #BENCHMARK | VALUE ADDED |
|---|---|---|---|
| *Financial Year Ending* | | | |
| 30 June 2022 | -26.0% | -18.1% | -7.9% |
| 30 June 2021 | 28.6% | 28.1% | 0.5% |
| 30 June 2020 | 3.3% | 3.6% | -0.4% |
| 30 June 2019 | 10.8% | 4.8% | 6.0% |
| 30 June 2018 | 17.2% | 14.1% | 3.1% |
| 30 June 2017 | 15.4% | 23.0% | -7.6% |
| 30 June 2016 | -12.9% | -9.2% | -3.8% |
| 30 June 2015 | 31.4% | 27.5% | 3.9% |
| 30 June 2014 | 13.0% | 12.9% | 0.2% |
| 30 June 2013 | 27.4% | 21.9% | 5.5% |
| 30 June 2012 | -0.8% | -9.5% | 8.7% |
| 30 June 2011 | 7.8% | -0.8% | 8.7% |
| 30 June 2010 | 38.3% | 16.9% | 21.4% |
| 30 June 2009 | -3.0% | -2.7% | -0.3% |
| 30 June 2008 | -5.2% | -16.6% | 11.4% |
| **SINCE INCEPTION*** | **8.3%** | **5.3%** | **3.0%** |
| **SINCE INCEPTION^** | **230.2%** | **116.6%** | **113.6%** |

* Annualised
^ Cumulative (2 July 2007).
** Historical figures are derived from the historical returns of the existing Cooper Investors Asian Equities Fund Wholesale Class, net of fees and costs that are applicable to Retail Class units.
# MSCI AC Asia ex Japan Net Divs in AUD
Past performance is not necessarily a reliable indicator of future performance

### Cooper Investors Asian Equities Fund (Retail Class) – Net of Fees
### $1,000 Invested since Inception




Source: National Asset Servicing

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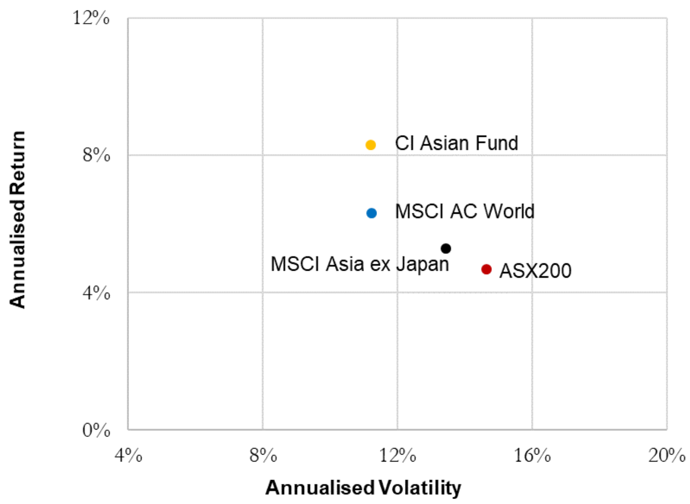
*"Kites rise highest against the wind - not with it."* — **Winston Churchill**

### TOP CONTRIBUTORS AND DETRACTORS*

| Top Contributors | Biggest Detractors |
|---|---|
| AIA Group | Dr Lal |
| Coupang | JS Global |
| DBS Group | Shenzhou International |
| Netease | Taiwan Semi-Conductor |
| Singapore Exchange | Tencent |

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

### RETURNS AND VOLATILITY (SINCE INCEPTION)



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JUNE 2022

## Portfolio Performance

The Portfolio declined by 5.7% over the quarter, compared to the Benchmark decline of 0.63%. 90% of the underperformance came from China, where the Chinese markets performed well and gained 12% during the quarter. The Portfolio has less exposure to China than our Benchmark, and holds defensive companies that do not benefit quickly when the economy first re-opens.

With a return to normalcy and no further major lockdowns, our Portfolio holdings will stand to do well. Outside of China, Southeast Asia, India, Korea and Taiwan suffered declines ranging from 6% to 13%. Our stocks in these regions, in aggregate, performed roughly on par to the Benchmark.

For the 12 months ended in June 2022, the Portfolio declined by 26%, compared to the Benchmark decline of 18%. We share the deep disappointment with our investors – CI staff are the largest group of unit holders of our Fund.

Quite a number of large Portfolio holdings performed strongly over the 2020-2021 period, as winners during the pandemic. Examples include private hospitals in India, or an eCommerce company in Taiwan. As their strong operating performance continued, their valuation multiples also rose to historically high levels. Both the relative performance and valuation multiple took a sharp negative turn as the Asian economies re-opened. We suffered the curse of the round-ticket journey.

Our Portfolio companies grew earnings by 15% over the past 12 months. This was achieved against generally weak GDP growth in the region. We expect these earnings to grow at a more modest but still attractive level of 8% in the next 12 months. Our Portfolio management teams lived up to expectations under strenuous testing. They doubled down on long term strategy, pivoted, problem solved and found solutions in the austerity. They worked around the clock tirelessly and kept their employees safe and productive, the factories running and customers happy. They also uphold high governance standards by giving shareholders full and transparent disclosure.

Across Asia, good bargains are hiding in plain sight. For a score of companies on our watchlist, their entire market capitalization is less than the net cash on the balance sheet. No matter what the general economic conditions are, paying a dollar for a dollar and fifty cents, and a free operating business on top, is still attractive.

Take JOYY as an example. Founded and managed by a serial entrepreneur that we admire, the Company has been on our watchlist for years. After multiple iterations of product and business models, JOYY is today an international (i.e. out of China) short video platform and is profitable. The net cash on balance sheet stands at US$3.6bn, whilst its entire market capitalization is less than US$2bn. JOYY is a classic case of the 'baby thrown out with the bath water' as indiscriminate selling occurs in the marketplace. It trades at 15x current operating earnings and free cash flows.

For the 3 months and financial year ended on June 30th 2022, our China and Hong Kong portfolio holdings detracted 411bps and 421bps of performance, respectively. Notably, 360bps of the underperformance occurred in the month of June alone, when the markets shot up by 10% on excitement around the re-opening of the economy after three months of lockdown in Shanghai. Our large holdings such as AIA and China Mengniu are stalwart companies that do not rise quickly when investors are chasing a 'hot trend'; however, their long-term prospects remain appealing.

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Looking ahead, we see plenty of risk-adjusted value latency opportunities. The Chinese consumers are eager to get out, dine out and travel (at least domestically). The warehouses and highways are busy; packages are showing up at people's doorsteps on time again. On the other hand, the total impact of two painful years of lockdowns is yet to be seen. Many jobs were lost. Thousands of small and medium sized businesses shut down.

Against this backdrop, we are sticking to our knitting and continue to keep the bar very high for our China holdings. The companies must have healthy profitability, a strong historical track record of converting profit into free cash flows, hefty net cash on the balance sheet and well-aligned management incentives and practices. We have found plenty of exciting opportunities even with such a high bar.

Take China Mobile as an example. It is the most well-run of the three state-owned telecom companies in China, long enjoying the best network quality and commanding over 50% of market share in the country's mobile subscribers. Average revenue per mobile subscriber is now stable, after years of government mandated pricing cuts. Exciting new revenue streams such as enterprise solutions and data centers are growing quickly. China Mobile is flush with cash – its net cash is equal to one third of its total market capitalization. Starting in 2022, China Mobile will enter a period of large free cash flow windfalls as further capital expenditure is dropping with the completion of nationwide 5G network coverage. Most importantly, the government is well incentivized to pay out these cash windfalls as it is the largest shareholder and in need for fiscal revenues. Dividend yields, already at an attractive 8% level, are likely to go up to 10%+ in the next two years. China Mobile trades at less than 7x earnings and free cash flows (free cash flows now exceed reported earnings) and less than 1x EV / EBITDA, far below the global average of 3x, let alone Telstra's hefty 8x.

For the 3 months and financial year ended on June 30th 2022, our Indian portfolio holdings detracted 9bps and 145bps of performance, respectively. The detractors over the quarter were our long-term winners such as Tata Consultancy Services and Apollo Hospitals, whilst our bank holdings such as ICICI Bank contributed positively.

Both business environment and consumer sentiment remain buoyant in India. We are particularly optimistic about India's export sector. Currently India exports around US$400bn worth of goods and services, only accounting for a modest level of 10% of its overall GDP. In comparison, China exports US$3.4 trillion per year (nearly 10x the size), or equivalent to 19% of overall GDP. In the near term, worries around consumer demand in the US and Europe and high commodity prices are pressuring the Indian exporters. Over the long run, however, we believe diversification of the supply chain is a massive global theme and it is up to the endeavors of Indian entrepreneurs to capitalize on this opportunity. We are actively seeking high quality management teams that we can partner with over the long run in India.

Our Korean and Taiwan holdings contributed positively by 65bps for the quarter but detracted by 64bps for the fiscal year. Pullbacks in our previous year's winners such as Momo.com detracted performance. Looking ahead, our research effort in Korea and Taiwan is focused around the supply chain of semiconductors. Whilst we recognize the overall demand weakness and potential risk for inventory over-stocking, we believe the long-term potential for cutting edge semiconductor technology such as Extreme Ultraviolet lithography remains very promising.

We take a specialist's approach in ASEAN and markets outside of Asia. There are long term trends that we are very excited about, such as the strengthening of Singapore's position as the most stable and accessible base for multinational companies' Asian operations. We have increased our holding size in DBS. There are short term trends that we are observing but we have not decided on their sustainability and implications, such as the boom in coal mining in Indonesia.

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

- YUM China (re-opening of Shanghai and other big cities)
- AIA Group (re-opening of China and Hong Kong / Macau)
- Inner Mongolia Yili (resilient performance of year to date operations)
- Samsung Electronics (better-than-feared memory pricing and demand)
- Shenzhou International (re-opening of its Vietnam and Cambodia factories)

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

- Techtronic (concerns on US consumer and construction demand)
- ASML (concerns on dampening of semiconductor demand from declining smartphone and PC sales globally)
- Alchip Technology (dragged down by sector-wide semiconductor demand concerns)
- TSMC (sector-wide semiconductor demand concerns)

## Recent Portfolio Changes

We initiated a position in **JOYY**. Starting in 2012 as an entertainment focused livestreaming business, JOYY achieved considerable success the as one of the early winners. In 2019, its livestreaming service, YY Live, recorded US$1.4bn in revenues and was very profitable with ~35% net margin ($480mm in net income). We had met with JOYY's founder, Mr. David Li, a number of times over the years and found him a highly pragmatic operator and contrarian thinker.

In an act that showed extraordinary courage, David sold his entire China business in 2020. He has since focused solely on acquiring and operating international short video businesses. JOYY's operating business today is a collection of short video services (similar to Tiktok) focusing in the US and Middle East markets.

JOYY enjoys net cash higher than its current market capitalization and management has shown strong willingness to return cash to shareholders. The cash is real - we have followed the company's legacy business for years and observed the build-up of the cash balance over time. Its financials were audited quarterly during the period. Over half of the cash came from the proceeds from its asset sales to very reputable buyers such as Tencent and Baidu.

JOYY pays a regular dividend that is equivalent to 6% of yield. It also authorized a share repurchase plan of $1.2bn, out of which $900mm is remaining. In other words, in the next quarters, JOYY could repurchase nearly half of its total outstanding shares.

We initiated a position in **State Bank of India** (“SBI”). SBI is the largest state-owned and retail bank in India with 22,500 branches and 430 million bank accounts. We have followed SBI closely throughout the years and have enjoyed observing its transformation from losing share to private banks to re-gaining market share in retail customers. Its journey reminds us of the experience of Commonwealth Bank of Australia over its own transformative years. In particular, both banks invested aggressively in technology to create a seamless digital experience for their vast retail customer base. This in return translate into stickier customer base, more cross-selling opportunities, and advantageous funding costs. Over the past decade, SBI core earnings grew at over 10% per annum, and its book value per share compounded at 8% per year. Its return on equity of 15% is approaching the best in class levels of private banks. It has also revamped its technology architecture and digital offering. At 1.3x forward Price to Book (compared to ~3x for private sector banks) and with a high-quality balance sheet, we believe SBI offers substantial value latency.

We also initiated a position in **China Mobile** (discussed previously during this letter).

## Stock News

**HDFC Bank** announced a reverse merger with its parent company HDFC Limited. After the merger, HDFC Bank will become a single entity holding both the banking business and HDFC Limited's mortgage finance portfolio. We support the merger. Not only is the new structure clean, simple and well aligned, it also eliminates any friction in customer management and cross selling between mortgage loans and other banking products. HDFC Limited's large reach in semi urban and rural regions will also help accelerate the penetration of banking products in these areas.

## Meeting Notes

We enjoyed meeting with the energetic and passionate CEO of **Welspun India**, Ms. Dipali Goenka. Welspun is a global leader in home textiles, with substantial market share in bedsheets (25%) and towels (20%) in the US. It enjoys long standing relationships with many large global retailers including Wal-Mart, JC Penney, Macy's, Costco and IKEA. The Indian textile industry is facing short term headwinds but also enjoys very large long- term tailwinds. In the near term, demand is weakening in the US and inventory levels at retailers are high. Costs are elevated with inflation in raw materials and transportation costs. In the long run, however, Indian textile exporters enjoy many advantages. On the demand side, as global customers diversify their supply base, India is a natural choice. On the supply side, India is home to 25% of global cotton production and homegrown cotton prices are stabilizing. In addition, local governments are very supportive with tax breaks and capital support. Welspun remains a Level 1 Watchlist stock.

We had an insightful interaction with Tan Sri Koon, one of the founders and current CEO of **Press Metals Aluminum Holdings (PMAH)** in Malaysia. PMTH operates the largest aluminum smelter in Southeast Asia. Its unique competitive advantage is the proximity and access to hydropower in Sarawak, Malaysia. As a result of its clean, 100% hydro-powered smelters, PMAH enjoys the lowest costs and lowest carbon intensity globally. Mr. Koon is a very solid operator and insatiable lifetime learner. He was one of the first businessmen in his industry to travel to China frequently, learn about the latest technology in smelters and apply them in Malaysia. Going forward we believe PMAH's products will be very competitive globally, especially as the European smelters are facing prohibitive energy prices. We added PMAH to our Level 1 Watchlist.

We had an enjoyable meeting with **Tokyo Electron** ("TEL") at their headquarters in Tokyo. TEL is a leading semiconductor production equipment ("SPE") provider. Its customers are mainly large foundry or memory manufacturers such as TSMC and Intel. The SPE industry was very cyclical historically, prone to periods of excess inventory and cutthroat competition. Over the past 10 years, however, industry dynamics have improved significantly for a number of reasons.

The increasing complexity of chip production creates deep barriers to entry and substantial competitive advantage to those with technology leadership. When the technology was less complex, it was common for TSMC to source from multiple vendors. Today TSMC or Intel's own research and development efforts are highly customized to each vendor tool. This means that they will choose one supplier and integrate deeply with its products.

In addition, TEL's main customers have consolidated, are much more profitable (especially after the previous three years of profit and free cash flow windfalls) and reinvest in capacity and new generation technology consistently even with the temporary slowdown in end demand. As a result of these improvements in industry structure, leaders such as TEL enjoy better profitability and returns.

We were impressed after our first meeting with **Lasertec** at their Yokohama offices. Lasertec makes mask inspection equipment that ensures that photomasks (the stencils used to pattern silicon wafers to turn them into chips) are free of defects. This is a mission critical product, as mask defects could have a substantial negative impact on the quality and yield of chip production. The most interesting aspect of Lasertec is its dominance in inspecting masks used in the latest generation of Extreme Ultraviolet (EUV) lithography technology. Lasertec itself incorporates an EUV light source in its own inspection systems and is only one of two companies (along with ASML) that can successfully handle the very sensitive EUV technology. We think the EUV is one of the brightest spots within semiconductors now. Its competitive advantage is without question and its demand does not depend on the general consumer products demand in the global market such as smartphones or computers. Lasertec is very well positioned and likely to see continued explosive growth in demand for its tools.

We met with **Advantest** in their Tokyo headquarters. Advantest is a leader in Automatic Test Equipment that tests if chips are working after manufacturing. Starting off manufacturing testers for memory chips, Advantest has become a market leader in testers through a series of thoughtful acquisitions. As a result of industry consolidation, the market for chip testers today is a duopoly between Advantest and Teradyne. Demand for Advantest is driven by chip volume manufactured but also "testing intensity". More complex chips need to be tested more in order to meet quality assurance requirements.

We had an interesting first meeting with **Daifuku** in Tokyo. Daifuku provides automated material handling solutions. Daifuku's equipment is widely used to move things between semiconductor fabrication clean rooms, distribution centres and even airports. Operating trends have been positive, with buoyant demand from new semiconductor fabs and new logistics centres in Japan which require a high degree of automation. We are particularly impressed with Daifuku’s ability to reduce the labor force by 95% in the distribution centers it operates in. We added Daifuku to our Watchlist.

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### Portfolio Attributes

| Industry Sector Breakdown | |
|---|---|
| Consumer | 27% |
| Information Technology | 26% |
| Financials | 24% |
| Communication Services | 9% |
| Real Estate | 0% |

| Regional Breakdown | |
|---|---|
| China and Hong Kong | 37% |
| India | 16% |
| Korea and Taiwan | 16% |
| ASEAN | 14% |
| Europe and Japan | 10% |

| Portfolio Attributes[2] | |
|---|---|
| Number of stocks | 31 |
| Number of stocks outside of Benchmark | 11 |
| Beta | 0.95 |
| P/E (x) | 15.0x |
| ROE % | 15% |
| Price to Free cashflow | 18.5x |

| Subsets of Value Breakdown | |
|---|---|
| Stalwarts | 53% |
| Growth | 31% |
| Cyclicals | 4% |
| Turnarounds | 5% |

[2] *Source: UBS Quant Answers / Factset*

### Terms and Conditions