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.

SEPTEMBER 2021

"The pain is that good things take time, the joy is that the benefit is long and lasting; it will help our business model for many years to come" - Joey Wat, CEO of Yum China

FUND PERFORMANCE – NET RETURNS

	**Portfolio	#Benchmark	Variance
Sep 21 Quarter	-3.56%	-5.77%	2.21%
1 Year %	14.97%	13.53%	1.44%
2 Year % (p.a.)	12.61%	12.19%	0.42%
3 Year % (p.a.)	12.87%	9.25%	3.62%
5 Year % (p.a.)	12.87%	11.41%	1.46%
7 Year % (p.a.)	10.38%	10.48%	-0.10%
10 Yea % (p.a.)	13.14%	11.77%	1.37%
Since Inception (cumulative)	10.79%	6.62%	4.16%
Since Inception (p.a.)	330.45%	149.35%	181.10%

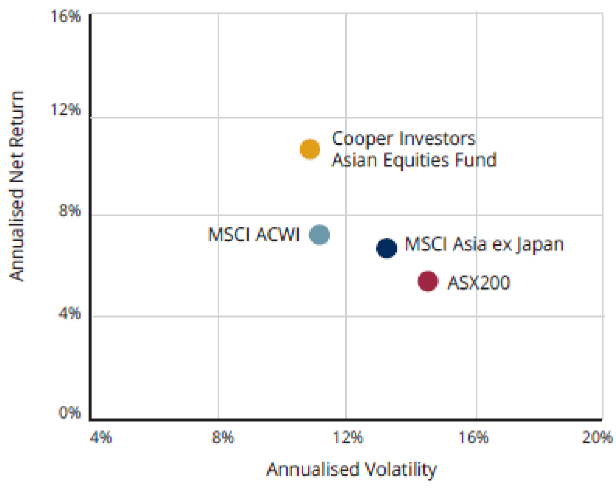
** Historical figures are derived from the historical returns of the existing Cooper Investors Asian Equities Fund Wholesale Class, net of fees and costs that are applicable to Retail Class units.
# MSCI AC Asia ex Japan Net Divs in AUD
Past performance is not necessarily a reliable indicator of future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

TOP CONTRIBUTORS AND DETRACTORS*

Top Contributors	Biggest Detractors
Apollo Hospitals	Bilibili
China Mengniu Dairy	JD.com
Dr. Lal	Netease
Tata Consultancy Services	Shenzhou International
Techtronic	Topsports

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

RETURNS AND VOLATILITY (SINCE INCEPTION)



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Portfolio Performance

The Portfolio lost 3.6% (net of fees) over the September quarter, compared to a steep decline of -5.8% for the Benchmark. All our focused industry verticals (consumer brands, software and hardware, and private healthcare services) contributed positively to out-performance.

Our investments in China / Hong Kong declined by 10% over the quarter, compared to 14% for the Benchmark. They generated 180 bps of outperformance for the Portfolio. Strong earnings results by core holdings such as China Mengniu, as well as our decision not to invest in a number of large benchmark stocks such as Alibaba contributed to the outperformance.

The operating environment has grown more complex in China. Regulatory scrutiny on various fronts, including companies' social utilities, competitive practice and consumer protection is increasing. Investor concerns around the regulations drove down the share prices of Netase, Bilibili and JD.com despite of their resilient business results – all three companies reported earnings that exceeded our and consensus expectations.

Numerous snap lockdowns after a number of regional COVID resurgences shook consumer confidence, impacting our holdings such as Topsports. In addition, rising raw materials costs, port closures and potential energy shortages pressured the share price of Shenzhou.

We believe most of these *external* factors – regulations, consumer sentiment and supply chain disruption – are cyclical or transitory in nature. We have limited ways in which to analyse these factors intelligently to make useful conclusions for long term investing. Instead, we observe closely how companies tackle these problems with *internal* strengths. These strengths could be tangible capabilities such as product development, marketing, stakeholder communications, capital allocation and digital systems. They could also be intangible qualities such as humility, intrepid spirit, entrepreneurial drives and compassion. We strongly believe that over the long run, management teams with these strengths sail through external challenges, often emerging even stronger. Backing these companies consistently, instead of trading in and out in an effort to 'time' the markets is where real money is and will be made.

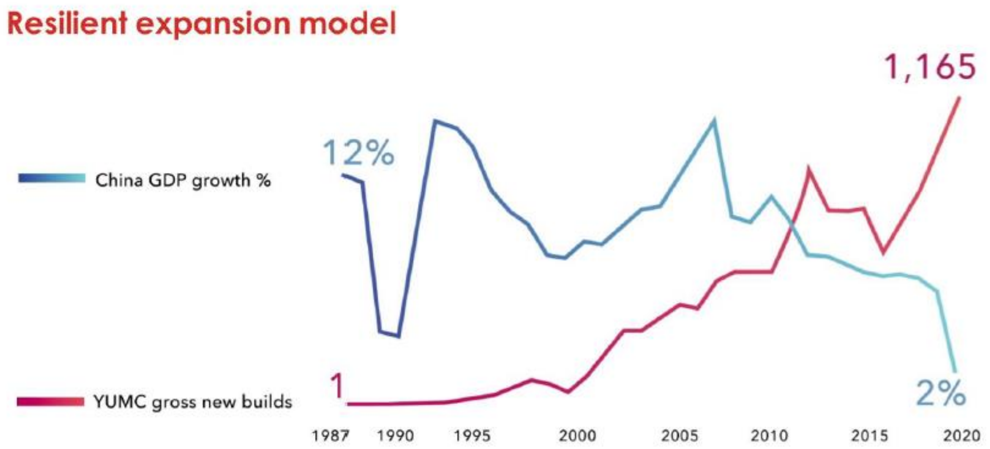
Take Tencent as an example. Humility runs in the veins of its management team. This humility is full of grit, born out of tackling various existential threats every few years since its inception in 1999. Over the past decade, Tencent was challenged by a Twitter-like service called Sina Weibo in 2010, blocked by a highly popular security service called Qihoo in 2013 and stalled by the freeze of new game registration in 2018. Tencent management, led by its low-profile founder never complains. Instead, they focus on inventing new products and businesses. Innovation has been its solution in every crisis. The wildly successful mobile app Wechat, for example, was created during the period when Tencent was besieged by Sina and Qihoo.

Over the past few years, Tencent has quietly but consistently invested in high quality international businesses. Today, it operates some of the most successful games in the US, Europe and Southeast Asia, with international revenues of US$6bn and still growing fast[1]. We believe the current regulatory tightening in China will accelerate Tencent's progress in becoming a true global champion.

We remain confident with our holdings in China – nearly 70% of them are run by founders (like Tencent), who are sweating in the business every day, and have the vast bulk of their own wealth tied in the company, alongside us. Most of these companies also enjoy comfortable net cash on their balance sheet, giving them the comfort to weather down cycles and continue investing for long term growth. We

[1] *Source: Public filings. Cooper Investors estimates.*

love this chart below from Yum China's investor day. Regardless of how Chinese GDP fares, KFC continues to feed more and more consumers with good food. And even with this rapid pace of new openings, store profitability and returns remain consistent.



Source: YUM China Investor Day 2021

Many articles have been written on how much 'cheaper' Asian markets as a whole are than international markets. Whilst this is factual (the Asian Benchmark currently trades at 13x P/E, compared to 20x of S&P) it is less relevant for us. We are not interested in buying mediocre companies because they seem 'cheap'. However, when quality companies that we know well and have followed for a long time (such as Tencent) go on sale, that gets us very excited. We have been adding to our highest conviction ideas. The number of portfolio stocks decreased (now at 35), whilst our average position size became larger.

Our research focus and intensity in China continues as business as usual. As some global investors declare the region 'uninvestable', we now enjoy better corporate access and longer conversations with management teams.

Our Indian holdings had a good quarter contributing 46bps of outperformance. Over the past 12 months, our Indian portfolio has risen by over 55%. The performance was driven by our long-term investments, including Apollo Hospitals, Dr. Lal and Tata Consultancy Services. These companies have been in the portfolio for over a year and on our Level 1 Watchlist for much longer. We initiated many of these holdings when India was 'out of favour' in the eyes of global investors, just like China today. Investing in India requires long term, focused effort and deep company networks that take years to build. Our Indian analyst even lived in Mumbai for 18 months before and during the pandemic. We are pleased to see the hard work paid off.

IT services and private healthcare services remain the two biggest trends that we are excited about. Tata Consultancy Services and WNS are going from strength to strength. Their services are valued more than ever during and after the pandemic as IT infrastructure becomes critical for all industries. Globally, a recovering retail industry, thriving pharmaceutical sales, and even heightened M&A activities lead to robust demand for IT services. As for private healthcare, premium quality and easy access are essential to patients. Dr. Lal and Apollo Hospital are accelerating their physical network expansion and digital product buildout, leading to even stronger market share in their respective industries.

We also enjoy a robust idea pipeline in India. One of the examples is quick-service restaurants and food delivery. We are pleased to see our portfolio holding, Jubilant Foodworks, accelerate store rollouts to address the increasing demand for high quality food. Delivery is a key driver for the fast rollout, as it allows restaurants to be smaller (less seating required when customers consume the food at home) and easier to find sites for. Consumers prefer to eat home cooked meals, but as food delivery services ramps up and more restaurants/cloud kitchen opens up. We believe this will create more demand from consumers for ordering in daily meals.

Our investments in Korea and Taiwan made a small positive contribution. Our holdings in Southeast Asia detracted around 60bps of performance. This is mainly due to our decision to not hold a number of large banks in the region.

Recent Portfolio Changes

We initiated a position in **JS Global Lifestyle (1691-HK)** ("JS"). JS was created when a Chinese home appliance company called Joyoung merged with a US appliances company called SharkNinja in 2017. The bulk of the revenue and value come from SharkNinja ("SN"), whose famous "Ninja" appliances and "Shark" vacuums are the market leaders in the US and the UK. It recently entered Germany and France and saw strong initial success.

We have had extensive conversations with SN's co-founder/CEO and CFO. Beyond their clear passion and strong capabilities, two additional qualities stood out. The first one is an agile and innovative culture. The research and development team accounts for over a quarter of total headcount, and has offices in the UK, US and China. Product innovation is localized. For example, SN develops smaller, quieter vacuum cleaners tailored for urban living which became an instant hit in Japan. The pace of development is also fast and agile - on average, the SN team brings new products to markets within one year.

The second quality is SN's 'maniacal focus' (their own words) on the customer experience. The whole team, include the CEO, is obsessed with reading customer feedback online and quickly incorporating changes in product design. Customers love their products; it is hard to find below-4-star ratings for just about any SN products on Amazon. We recommend our investors try the Ninja Foodi multi-cooker that can air fry, pressure cook, slow cook or roast, available at JB Hi-fi.

The JS business is not well understood, as is often the case with international companies listed in Hong Kong. However, over time we are confident that its solid operating performance will shine through. Value latency is strong – it is trading at 15x free cash flows for 15-20% sustainable growth.

We initiated a position in **Mr DIY group (5296-MY)**, the largest discount retailer in Malaysia. From the humble beginnings of a single hardware store in downtown Kuala Lumpur in 2005, Mr. DIY grew to an impressive store base of over 800 stores and still opening stores fast. We had the rare opportunity of

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meeting its founder, Mr. Tan Yu Yeh ("YY"). He exudes passion, humility, joy and calmness, a classic 'burning furnace' that we love seeing in founders.

Offering customers good deals is a personal obsession of YY, and deeply ingrained in Mr. DIY's culture. Its simple slogan says it all, "Always low prices". Its products are often 15-20% cheaper than competitors. The company refused to raise prices even when its own costs went up – when GST was first implemented in Malaysia in 2015, Mr. DIY absorbed the additional costs rather than passing them on to customers. This proved to be ingenious – customers flocked to Mr. DIY and it became synonymous with 'value for money' in Malaysia.

The ability to keep costs down is key to a discount retailer and Mr. DIY is best in class at this. In order to procure the lowest possible prices, it establishes direct relationships with suppliers (cutting out the middlemen distributors), pays cash up-front and even rents out its idle trucks to suppliers. It also drives hard bargains on rent, often securing the most favourable lease terms in shopping malls.

Mr. DIY not only expands its existing store network, but also creates new store format and brands. Its smaller-format stores, Mr. DIY Express, are met with enthusiastic responses from smaller towns. Its new brands, Mr. Dollar and Mr. Toy, also saw some encouraging initial signs. We believe Mr. DIY can open 150-200 new stores per year over the next few years, with meaningful value latencies in both revenue and free cash flows generation.

Meeting Notes

We enjoyed meeting with Mr. Meisong Lai, founder of the leading Chinese express parcel delivery company **ZTO** (ZTO-US). Sharing success and taking care of one's partners (instead of maximizing profits against partners) is Mr. Lai's credo. It leads to a culture that places a long term and healthy ecosystem above short term gains. One example is its generous support to its franchisees that handle last mile deliveries. As a result, its franchisee network is the most stable in the industry with only ~5% churn rate. ZTO also takes the extra step to care for delivery workers. Despite not being employees of the company, 60% of delivery workers' income is paid directly by ZTO to their mobile wallet within 3 days of delivery time.

Industry operating trends had been challenging for the express industry in China for the past three years due to fierce and often irrational competition. We have observed signs that more rational behaviour is returning. Over the medium to long term we believe the industry will further consolidate and ZTO has the potential to double its market share from its current level.

We attended **YUMC**'s virtual investor day, which provided an invaluable opportunity to meet its deep bench of management team. Digital was the standout presentation. It has become part of YUMC's DNA, touching not just the customers with delivery and membership, but also store managers with automation (e.g. automatic fried rice machines) and supply chain. An impressive example of the efficiency generated from digitization is that despite growing its store base by nearly 50% over the past 5 years (from 7,500 to 11,000 stores), the total number of employees at YUMC stayed flat.

Our conviction in YUMC has been enhanced. We believe the company will open the next 10,000 stores much faster and efficiently than the first 10,000. We are also excited about the latencies in new opportunities such as coffee.

We had an engaging meeting with Mark Baroccas, the CEO of SharkNinja (SN), the most important business under **JS Global** (see previous section on JS initiation). We love Mark's passion and relentless drive to create great, innovative products, even in seemingly mundane categories. Cookware is an example. Their Ninja Never-Stick Premium pans stand out with superior quality over other nonstick pans (they do not chip or flake away even after years of frequent usage). Mark's palpable excitement about them made us promptly buy a few pans after our meeting (a live testament of his marketing capabilities). We look forward to the opportunities ahead for SN – the new products in the existing categories (e.g. ice cream makers), the new categories (e.g. air purifiers and hair dryers) and new countries (Spain, Italy and later on China).

We also had a great conversation with Ms. Yang Ningning, the Chairwoman of SharkNinja. Ms. Yang gave us a good understanding of the synergies between SN and its Chinese sister company, Joyoung. We are excited by the new vacuum products that SN and Joyoung are launching together in China and believe it could be a very interesting long term opportunity.

We had a conversation with the CFO of **Boss Zhipin ("BZ")**. BZ is the most interesting company we have seen in the online recruitment industry in China over the past decade. It does not operate an online job board, where companies and candidates search for listings and resumes. Instead, BZ runs a technology platform that uses an algorithm to match candidates with potential employers. Candidates and employers must chat first before a resume can be exchanged. This model has been enthusiastically embraced by job seekers and despite being only 7 years old, BZ has dethroned industry leaders such as Zhaopin. As a matter of fact, BZ's monthly active users are twice the size of Zhaopin and are still growing fast.

Management of BZ strongly believes that the 'chat first, resume second' model is more natural and has a higher success rate, as personality fit is far more important to career success than technical abilities shown by resumes. "We believe this is how recruitment will and should evolve around the world'. We look forward to hiring a few new talents at Cooper Investors this way.

We had an insightful meeting with the founder and management team of **Page Industries** (532827-IN). Mr. Ashok Genomal is energetic and passionate as always. We also found the new CEO, Mr. VS Ganesh, humble and authentic. Page Industries is the exclusive licensee of the Jockey brand in India, and has enjoyed a dominant position in the men's innerwear industry for over two decades. Beyond innerwear we found the value latency in new segments such as athleisure, women and kids' apparel very interesting. Operating trends are improving despite the pandemic as new products attract more first-time consumers to the brand.

We spoke to the CFO of **Zomato** (543320-IN), Mr. Akshant Goyal. Zomato is one of the two leading players in India's duopolistic food delivery market. We like the entrepreneurial culture and its big ambition to grow the current food delivery volume by 10x in the next few years. Just like eCommerce companies in China stimulated and created incremental retail demand (instead of merely moving offline business online), Zomato is creating new demand for restaurant food for consumers who only ate at home previously. We found it fascinating that 70% of all new restaurants in India today are cloud kitchens with no dine-in. They are designed with the sole purpose of supplying to delivery platforms such as Zomato. Unit economics is improving and we are confident that the long term profitability profile could be very attractive.

We enjoyed a rare opportunity to meet with the entire senior leadership team of **Apollo Hospitals** (508869-IN). We particularly enjoyed speaking to Ms Shobana Kamineni, Vice Chairperson, and Ms Suneeta Reddy, Managing Director. Apollo has stepped up its long-term digital investments. Its digital platform "Apollo 24x7" already has 10 million users, 5,500 doctors and delivery capabilities to more than 85% of the country. Patients can connect doctors in Apollo's network within 15 minutes. Medicines for acute diseases can be delivered in less than 4 hours in big cities. Patients can even order home collection services for diagnostics. Apollo's brand has certainly grown stronger upon these initiatives.

Portfolio Attributes

Industry Sector Breakdown	
Consumer	32%
Information Technology	25%
Communication Services	11%
Financials	10%
Health Care	6%

Regional Breakdown	
China and Hong Kong	41%
India	19%
Korea and Taiwan	18%
Japan & Other	8%
ASEAN	6%

Portfolio Attributes[2]	
Number of stocks	35
Number of stocks outside of Benchmark	9
Beta	0.8
P/E (x)	28.9
ROE %	20.7

Subsets of Value Breakdown	
Growth	48%
Stalwarts	36%
Cyclicals	4%
Turnarounds	2%

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