COOPER INVESTORS 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.

DECEMBER 2020

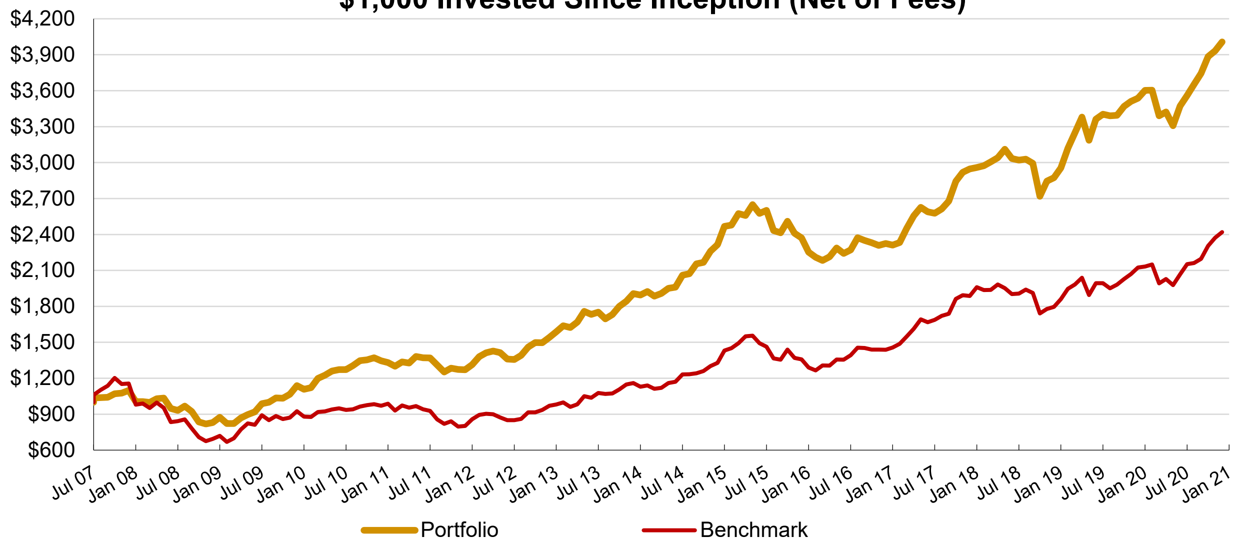
"Yesterday's home runs don't win today's games." – Babe Ruth

"Character cannot be developed in ease and quiet. Only through experience of trial and suffering can the soul be strengthened, ambition inspired and success achieved." – Helen Keller

"Forget past mistakes. Forget failures. Forget everything except what you're going to do now and do it." – William Durant

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
ROLLING 3 MONTH	7.02%	10.16%	-3.14%
ROLLING 1 YEAR	13.29%	13.89%	-0.60%
ROLLING 2 YEAR	18.08%	16.08%	2.00%
ROLLING 3 YEAR	10.78%	8.64%	2.14%
ROLLING 5 YEAR	11.06%	12.25%	-1.19%
ROLLING 7 YEAR	11.19%	11.07%	0.12%
ROLLING 10 YEAR	11.53%	9.56%	1.97%
SINCE INCEPTION*	10.83%	6.76%	4.07%
SINCE INCEPTION^	300.67%	141.96%	158.71%

*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



Source: NAB Asset Servicing

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Market and Portfolio Performance

The Fund gained 7% over the December quarter, against a very robust Benchmark that rose 10.2%. The strong performance of cyclical companies to which the Fund has relatively small exposure accounted for most of the short term underperformance. For the calendar year of 2020, the Fund returned 14%, slightly ahead of the Benchmark.

Looking forward to 2021, we are excited about our Portfolio. The operating trends for the forty companies that we own continue to strengthen. Most of these companies have completed the recovery phase and are back to long term growth paths, often with an even better industry positioning than before the pandemic. Their progresses far exceed peers in the same industries and regions, and are direct results of the hard work, innovation and discipline of individual management teams.

We are also pleased to report that our own high-touch corporate access strengthened over 2020. We conducted ~430 company meetings and another ~180 research meetings via video conferences. Our team was in China until one week before the Covid-19 breakout. Our team member based in Mumbai also provided us with valuable observations and insights when on-the-ground research access in India was cut off for most global investors.

Our China and Hong Kong holdings detracted 90bps from the December quarter performance but contributed positive 200bps over the calendar year 2020.

The consumer companies in the Portfolio performed well and were the largest source of outperformance in 2020. We have written extensively of these innovative consumer companies such as China Mengniu, Li Ning, YUM China and the Huazhu Group in our previous quarterly letters. Their management teams quickly pivoted the product and sales strategy, mastered new digital tools, and put their strong balance sheet to work. As a result, these companies not only survived 2020, they thrived. Going into 2021, whilst their peers are still struggling with unsold inventories, they are already racing ahead with clean inventory, new products, and better trained and more nimble sales teams. We are every bit as excited about their prospects in 2021 as we were going into 2020.

We also continue to find the consumer industry in China a fertile hunting ground for new ideas. Across the verticals that we study carefully – apparel, food and beverages, restaurants, and hotels – the same pattern is emerging. The old way of focusing on producing and distributing products is giving way to the new way of putting consumers at the front and centre of the supply chain. All the important business functions, including product development, sales, marketing, and distribution, are being redesigned with direct consumer data being the most important input. We believe the journey for companies with real-time and deep understanding of their own consumers, often enabled by sophisticated digital systems, to take significant market share from those with outdated systems and rely on distributors for information has just begun.

2020 was an important year for the technology industry in China. Covid-19 generally benefited the entire digital ecosystem. At the same time, consumer tastes and behaviours quickly segmented. Long gone are the days when people with different income levels, origins, or ages buy from the same online websites or watch the same online videos. Individual online communities started to form based on localities, age, or interest groups before Covid-19. This development accelerated substantially during the pandemic, propelling multiple internet companies with deep community characteristics from niche websites to potential large category leaders.

Take Bili Bili ("BILI") as an example. It started in 2009 initially as a website for anime, comic and games ("ACG") content for teenagers. Over the years, BILI evolved into a dynamic and deep online community

for Generation Z (defined as people born after 1997) in China. Its users are loyal, committed and highly engaged, with their own unique ways of communication and vocabulary - we often need to look up what these words mean during our research. An active user on BILI spends on average nearly 1.5 hours on the website, far higher than peers. 2020 was year that BILI expanded its core audience group significantly. Within a few short months, BILI underwent a step-change in content quality and diversity, accelerated user growth, while maintaining the integrity of its close-knit community.

As for the larger internet platforms, we believe they are entering another cycle of tightening regulatory scrutiny. In November 2020, the highly anticipated IPO of Alibaba's Ant Group was unexpectedly suspended (we will cover this with further details in the Stock News section). We believe regulations come in cycles like everything else in business. Tightening could result from many reasons, including change of leadership and philosophy on behalf of the regulators, hubristic behaviour by management, innovation within the industries that outgrow prior regulations, or the sheer size and power of platforms themselves rising beyond the comfort zone of regulators. But at the same time, businesses are adaptable, and both regulators' and management's thinking and behaviors change. Businesses learn to become more compliant within the new framework, and regulators learn to understand the nuances of the new business models. The ultimate outcome of these regulatory cycles, interestingly, is the strong getting stronger. In the current Alibaba situation, we believe we are at the start of the new round of a tightening cycle. Our view on Alibaba's long term prospects, however, has not changed.

Our India holdings detracted 39bps and 83bps of performance for the December quarter and calendar Year 2020, respectively. Our holdings in private banks were the main detractors of performance, whilst our holdings in healthcare services were the biggest contributors. IT services holdings were a small detractor as well.

During 2020, we developed more concerns around the operating trends of the Indian banking industry. Loan growth slowed to low single digit levels. Asset quality remained opaque as moratoriums prevented true delinquent loan disclosure. We have reduced our bank holdings in India from three to one. Our confidence in our sole holding, HDFC Bank, remains high. Asset quality is far superior to the industry, thanks to its consistently high lending standards. Growth also remains impressive. During 2020, HDFC Bank grew their loans by nearly 9%, compared to <2% of the industry.

Over the long term, we still believe the private banks will continue taking significant market share from public banks in India. The latter group still commands a market share of 60% and we believe the share shift will accelerate after Covid-19. We are keenly observing the development of the industry, and will adjust our portfolio accordingly.

Our healthcare services holdings such as Dr. Lal and Apollo Hospitals performed well during 2020 as consumers and patients flocked to brands they trust. These companies also progressively ramped up their digital initiatives such as Apollo's flagship 24/7 online health services. We believe the strong operating trends will continue into and well beyond 2021.

Our Korea and Taiwan holdings detracted 135bps and 26bp of performance for the December quarter and calendar Year 2020, respectively. Both markets rose significantly over the December quarter – the Korean Index rose by 29% and Taiwan by 14%. Our relatively low weighting in these markets, especially in the cyclical sectors, resulted in the short term underperformance.

Our Southeast Asia holdings detracted 34bps and 31bps of performance for the December quarter and Calendar Year 2020, respectively.

We have reduced our portfolio exposure in a number of Southeast Asian countries, most notably Thailand. Tourism and related sectors account for close to 60% of GDP. Despite the initial effective

control of Covid-19, a second wave is currently unfolding, making it very difficult to bring back international travellers. We have reduced our holdings in Thailand to one position. Bangkok Dusit Medical Services, the premier private hospital group, remains our sole position in the country. Whilst in the short term lack of international patients presented a meaningful challenge, over the long run we believe its high quality and affordable healthcare services remain highly attractive.

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

- Li Ning (better-than-expected operating trends)
- 21 Vianet (positive operating trends, raising long term growth guidance)
- China Mengniu (strong operating trends driven by innovative new products and agile sales force)
- HDFC Bank (relief as investors observe HDFC Bank far outperforming the industry)
- LVMH (strong recovery of global luxury demand, led by Asian consumers)

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

- HKBN (slow recovery of local Hong Kong businesses put pressure on pricing)
- Hansoh (concerns around government policy that could cut prices of its older drugs. Stock has since regained ground as its new drugs reported positive development)
- Huya (concerns around anti-monopoly risks as it proposed to merge with one of its biggest competitors)
- Sino Biopharmaceutical (concerns around government policy that could cut prices of its older drugs)

Portfolio Review

Portfolio by Industry Sectors	
Consumer	38.1%
Information Technology	22.4%
Financials	13.8%
Telecommunication Services	9.0%
Health Care	8.5%
Industrials	2.9%
Real Estate	0.0%
Utilities	0.0%
CASH	5.3%

Portfolio by Country	
China and Hong Kong	52.3%
Korea & Taiwan	17.2%
India	11.8%
Japan & Other	7.9%
ASEAN	5.5%
CASH	5.3%

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Portfolio Attributes[1]	
Number of stocks	43
Number of stocks outside of benchmark	11
Beta	0.92
P/E (x)	27.5
Dividend Yields	1.3
Historical EPS Growth %	12.7
ROE %	16.7
Net Cash %	5.3
Tracking Error vs Benchmark	5.1

The portfolio is positioned around five subsets of values as follows:

- **Stalwarts (37%)** - sturdy, strong and generally larger companies with world class privileged market and competitive positions. (Singapore Exchange)
- **Growth (41%)** – growing companies with identifiable value propositions using traditional value metrics and run by focused, prudent and experienced management (WNS)
- **Cyclicals (6%)** - stocks showing upside leverage to the cycle with experienced and contrarian managers who can allocate capital prudently and with good balance sheets. (Huazhu)
- **Low Risk Turnarounds (9%)** - sound businesses with good management in place and good balance sheets. We especially like spin offs and government to private turnarounds. (Dabur)

We believe the management type that produces 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. Together these two management types account for nearly 60% of our portfolio.

Portfolio by Management Type	
Family & Founder Linked	42.5%
Specialist Focussed Managers	40.3%
Owner Operator Cultures	11.9%
CASH	5.3%

[1] Source: UBS PAS

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Recent Portfolio Changes

The Fund initiated a position in **L'Oreal ("LO")**, the global leader in beauty and cosmetics. LO is an existing holding in the CI Global Endowment fund; its inclusion in Fund presents another example of collaboration between our teams.

Asia has been the key growth driver for LO in recent years. In 2019, the region accounted for 40% of group sales but drove 80% of the incremental growth. China makes up almost half of sales in the region and has been growing at a rapid pace of over 30% per year. Innovative premium products and sophisticated digital operations are the two main contributors to its success in China. As high as 60% of LO's China sales are conducted online.

Furthermore, LO is taking the learnings from China and turning them into a global competitive advantage. Around the world, consumers are changing their behaviors in a similar way. Advertisements on TV and magazines with flawless looking models are giving way to creative and playful online influencers, with new tools such as IP cross-over, AI makeup, and livestreaming. LO is applying the expertise and talent developed in a highly digital market such as China to its global businesses. For example, LO appointed its China CEO, Mr. Stephane Rinderknech, to be the President and CEO of its North American business in 2019. Since then, the US online sales had been on fire. During the September 2020 quarter, LO US eCommerce grew over 100% and reached nearly a quarter of total sales.

LO is 33% owned by the founding Bettencourt family, who have a strong track record in shareholder stewardship. It is run by long tenured and well regarded management teams. Amazingly, over its history of 115 years, LO only has 5 CEOs. The current CEO and Chairman, Jean Paul Agon, will retire in July 2021 and hand the baton to the current Deputy CEO, Nicholas Hieronimus. Mr. Hieronimus is well regarded particularly during his time as CEO of LO's Luxe division, which was the best performing segment during his tenure.

We believe LO can continue to deliver free cash flow growth of 8-10% driven by organic sales growth and operating leverage. The company has a strong balance sheet with net cash, which gives it the optionality in opportunistic and accretive acquisitions.

The Fund also initiated a position in **Bilibili ("BILI")**, an online pan-entertainment platform focused on the young (Gen Z, or people born after 1997) users in China. Founded in 2009 originally as a video sharing platform mostly focussed on the Anime, comics, and games ("ACG") genres, BILI evolved into a broad entertainment site that hosts livebroadcasting sessions, distributes games, and even has premium and self-produced content for its paid subscribers (similar to Netflix).

We had been watching BILI closely and meeting with the company regularly since its IPO. What impressed us about BILI's evolution is how it maintains the quality and engagement of its community while growing its user base rapidly. From 2016 to September 2020, BILI managed to grow its user base five-fold, from 40 million to 200 million, whilst growing the level of time spent, video views, and interaction level on a per user basis. In our over two decades observing the China internet space closely, we have only seen a similar level of growth and engagement from one other service – Tencent's Wechat.

Meanwhile, BILI has been able to diversify its content offering to outside the niche ACG focus to a more mainstream offering. We believe 2020 was the year when BILI reached the tipping point of becoming a truly mainstream platform from both audience and content offering perspectives. Monetisation still remains in the early stages, but we are confident that the BILI users have very high commercial value as consumers and opinion leaders of products and services both online and offline. Going forward, BILI has multiple potential revenue streams such as e-commerce, game distribution, voluntary tipping, or the tried and true advertising model.

BILI is led by CEO Chen Rui and founder Xu Yi, both of whom are avid anime fans. Both leaders are adamant on maintain the quality and integrity of the BILI community. The culture of BILI reflects its user communities – dynamic, young and full of passion.

We also initiated a position in **Meituan** (**3690-HK**). Best known as the dominant online food delivery platform, Meituan has fended off strong competition from the likes of Alibaba to become the category leader while also being able to grow profitability on a per unit basis. But unlike its global peers whose core business stops at food delivery, Meituan has successfully leveraged its massive user base and strong local sales network (especially in lower tiered cities) into hotel bookings, local services, and more recently grocery deliveries. Whilst food delivery could be a relatively low margin business structurally, local services and hotel bookings could generate much higher profitability over time. Advertising is another long term value latency, as Meituan is often the only online platform with both traffic and transaction capabilities.

Meituan was founded by a dynamic founder who continues to operate the business day to day. Fast execution, deep understanding of the lower tiered city consumers, and bold investing into new businesses are hallmarks of Meituan’s culture. We are also pleased to see increasing capital discipline within Meituan. Compared to its early days when aggressive promotions were used to attract as many new users as possible, Meituan is much more measured at expanding into new verticals. We believe improvement on capital efficiency and return on capital could be another main source of value latency going forward.

Stock News

21Vianet (VNET) announced an excellent set of September 2020 quarterly results that provided multiple sign-posts to suggest its turnaround is well on track. The quarter saw a record level of organic cabinet utilisation by customers, signalling strong demand. With stronger capacity utilisation, margins also showed continued improvement. In addition, VNET announced a new 3-year plan that targets a minimum capacity addition of 25,000 cabinets annually each year which would result in capacity increasing by 150% by 2023. VNET's recent foray into attracting more wholesale customers (larger customers such as the major cloud service providers) is also bearing fruit with this segment expected to be a large part of incremental demand. While the stock has since risen sharply, we believe that value latency continues to remain compelling with VNET trading at only 15 x '22 EBITDA which is well below that of both domestic and global data center peers. We believe this valuation gap will close over time as management continues to execute well.

The IPO of the Ant Group, ~33% owned by the **Alibaba Group**, was suspended as the Chinese financial regulators were concerned about the lending standards and rates of loans facilitated on its platform. Despite the fact that Ant Group only connects and shares data between consumers and banks and does not set rates or make loans itself, in the eyes of the regulators, its sheer scale comes with equal accountability as the lending institutions themselves. Shortly after, the regulators also announced investigations on Alibaba’s own potential anti-competitive behaviours within the eCommerce business. Whilst we have not changed our views on the long term prospect of Alibaba,

we do believe in the short term this will require a number of operational adjustments and take up meaningful management bandwidth. We have adjusted our portfolio sizing accordingly.

Meeting Notes

We met with portfolio holding **Huazhu** Group's CFO. Huazhu, as one of China's largest hotel chains saw 2020 significantly affected by the outbreak of COVID-19. However, as China has been successful in controlling the pandemic, operating trends have continued to improve for Huazhu domestically, with recent months' operating activity almost back to "normal" 2019 levels. Despite being in the eye of the storm, we have been impressed by management's unwavering focus on executing on its longer-term strategic goals and believe that Huazhu will emerge on the other side of the pandemic as a much stronger business. The difficult industry backdrop has added further pressure on independent lodging operators to join the networks of established operators such as Huazhu. This is a dynamic that has been observed during other external shocks in the past such as the SARS pandemic and the GFC. As a result, Huazhu is on track to open a record number of hotels in its network in 2020 and we believe the pace of new hotel openings will only accelerate over the next few years. There has also been meaningful progress in building direct relationships with business customers which lowers distribution costs and further enriches the value of Huazhu's customer loyalty program. Upscale hotels is another source of value latency for Huazhu. With the recent strong performance of Huazhu's self-operate upscale Joya hotel brand, the company is now ready to move forward and manage upscale properties on behalf of franchisees. While the environment in Europe, where Huazhu now has a presence after acquiring Deutsche Hospitality, remains difficult due to the resurgence of COVID-19, management is still on track with integrating the European assets and unifying the technology systems.

We had our first call with **Meidong** Auto's impressive CEO, Mr, Tao Ye. Meidong is a luxury focussed auto dealer with around 60 stores mostly in lower-tier cities in China. It has built a highly focussed operation that is very selective about working with premium auto OEMs and only operating stores in regional markets where competition is limited and Meidong has a competitive advantage. As a result, Meidong enjoys best-in-class inventory turnover, margins, returns, and cashflow conversion. Another driver of Meidong's success is its extensive use of technology and data to inform day-to-day operations, an initiative led by the CEO who had founded a technology company before entering the auto business. We also got an excellent sense of how much emphasis management places on maintaining its unique company culture. We are confident that Meidong could comfortably grow its store base by at least 10% per year in the next few years. There are also multiple additional sources of value latency including expanding OEM partnerships and more after-sales services.

We hosted a video call with **L'Oreal**. Throughout the meeting, we observed numerous examples of its decentralised operational structure at work and the strong culture of resilience across the organisation. Through its team on the ground in China, L'Oreal was able to quickly assess the covid-19 situation as it was unfolding, implement measures to protect its staff such as a ban on travel and remote working from home, and at the same time remain fully functional through this period.

We were also impressed by the solidarity measures that L'Oreal had implemented during the period, including delaying payment collections from independent customers such as hairdressers who have been impacted during the lockdown, a clear example of the company's long term relationship approach with its key stakeholders. L'Oreal continues to proactively invest and engage with digital and technology. For example, we discussed the company's investment in Modiface, a virtual mirror tool allowing consumers to try on new make up or hair colours.

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We had our first meeting with CEO, Mr. Pratik Pota and CFO, Mr. Prakash Bisht of **Jubilant**, the master franchise of Dominos in India. We like the industry trends for quick service restaurants ("QSR"s) in India. Changing consumer habits from cooking at home to eating out is a long term tailwind. The heightened awareness of food safety and hygiene from Covid-19 gives the industry a further boost. Furthermore, the industry is highly fragmented, with the chain restaurants with good reputation only accounting for less than 10% of total food sales. Jubilant is the largest chain in India but only has ~1,300 stores. In comparison, KFC China has ~7,000 stores. We believe Jubilant can comfortably grow its store network to multiple times of its existing base over the next 5-10 years. Digital is another large value latency, as Jubilant is already best-in-class in India but still has a long way to go to catch up to global leaders. For example, its membership program is just starting. We learned from our investment in Yum China that membership sales could get to over half of total sales over time, giving the Company priceless data on consumer insights. We also found the management team at Jubilant humble, disciplined and knowledgeable.

We had a very impressive meeting with the CEO of **WNS**, Mr. Keshav Murgesh. We found Keshav extremely knowledgeable of every aspect of the business. During the pandemic, he took on a very hands-on approach, picked up the phone and called the big clients on a daily basis. The meeting reinforced our belief that Covid-19 is accelerating the demand for the BPO sector. Globally companies are focusing more on their core business and lowering fixed cost. This sets a favourable stage for business outsourcing. We continue to be impressed by WNS' ability to not only expand their client base, but also deepen the relationships with existing clients. We also believe its deepening vertical expertise in large industries such as insurance, banking and travel will becoming increasingly more valuable for its new and existing clients.

We had a good catch-up meeting with the CFO of **Tata Consultancy Services,** Mr. V Ramakrishnan. TCS is confident that the total addressable market is expanding as technology led solutions are required across every function of the organisation, not just for cost cutting or efficiency gains. We believe TCS's biggest long-term advantage remains its deep relationship with clients; over the decade they have worked with large players of the world across key industries like banking and insurance, retail, and manufacturing. They have a detailed understanding of their technology infrastructure and the business. Its delivery capabilities at a large scale are unparalled in the industry. TCS also has a very collegial culture that develops and retains talent for the long term. As a result, TCS enjoys industry leading talent retention rates.

Team Development

We are pleased to announce that Aaron Yeoh has joined our team. Previously, Aaron was a highly rated research analyst at Goldman Sachs. Prior to that, Aaron had worked at Mutual Trust and National Australia Bank.

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