COOPER INVESTORS ASIAN EQUITIES FUND RETAIL CLASS

COOPER INVESTORS

AFS LICENCE NUMBER 221794
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QUARTERLY COMMENTARY | DECEMBER 2022

"Before you become too entranced with gorgeous gadgets and mesmerizing video displays, let me remind you that information is not knowledge, knowledge is not wisdom, and wisdom is not foresight. Each grows out of the other, and we need them all."
Arthur C. Clarke

PORTFOLIO PERFORMANCE

The Portfolio rose by 4.1% over the December quarter, compared to the Benchmark return of 5.6%. For the Financial Year to December 2022, the Portfolio rose by 0.9% whilst the Benchmark declined by 2.7%.

Our China and Hong Kong holdings detracted 73bps of outperformance. After lagging the global and other Asian markets for over a year, the Chinese markets regained some lost ground and rose by 8.6% over the December quarter on optimism around China re-opening. Our Portfolio stocks gained 7%, as shares of AIA Group, Pinduoduo, and YUM China rose.

As this letter went to print, nearly all COVID restrictions were lifted in China. Flights and trains resumed, offices re-opened, and quarantine and testing requirements were scrapped. We are pleased to see the final commitment to opening after one year of back-and-forth policy changes. However, three years of strict lockdowns had left indelible marks. Jobs that were lost could not be regained overnight. Businesses that shut also take time to re-open. We continue to observe significant financial pressure on businesses, consumers and local governments. Value for money becomes the most important element in purchasing decisions.

Our agile management teams have already started to adapt their own businesses and products to this new reality. Instead of raising prices in pursuit of 'premiumization', they are now developing products with more affordable price points without sacrificing the consumer experience.

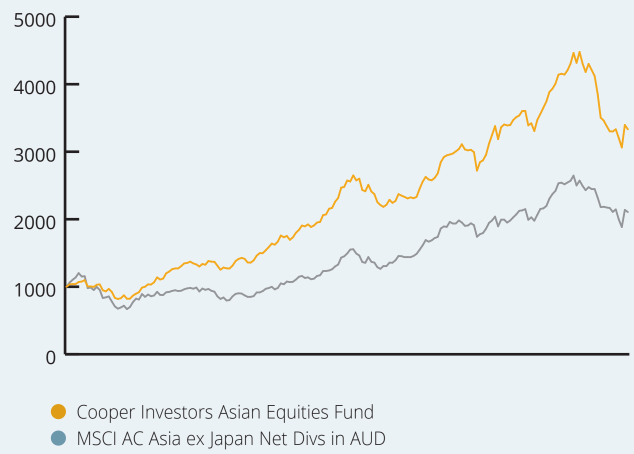
Take YUM China as an example. Its offerings have always been attractively priced. But its ever-vigilant management team is now taking 'value for money' to a new level. Its creative supply chain team, arguably the best in its field, clicked into gear and invented menu items that are more affordable yet equally satisfying. One of these new items is its whole chicken meal. By sourcing whole chickens rather than only parts of a chicken such as thighs and wings, YUM China created a more filling meal for the consumers but also a product that enjoys healthy gross margins.

Our more recent Portfolio addition, Pinduoduo ("PDD") is another good example. Compared to branded and full-priced offerings on Alibaba's TMall or JD.com, products on PDD tend to be functional, white-labeled and attractively priced. It is common to see prices at 50% or less of their branded peers.

	**Portfolio	#Benchmark	Relative
3 months	4.06%	5.57%	-1.51%
1 year	-20.86%	-13.88%	-6.98%
3 year*	-1.97%	-0.27%	-1.70%
5 year*	2.49%	2.23%	0.26%
7 year*	4.98%	6.48%	-1.50%
10 year*	8.02%	8.07%	-0.05%
Since inception*	8.08%	4.93%	3.15%
Since inception^	233.22%	110.73%	122.49%

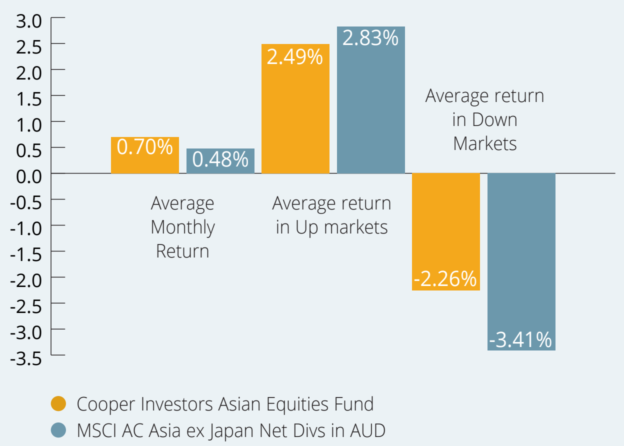
*Annualised
^Cumulative (since inception on 2 July 2007)
**Net of fees and expenses
MSCI AC Asia ex Japan Net Divs in AUD
Note: The historical figures are derived from the historical returns of the existing Cooper Investors Asian Equities Fund Wholesale Class, net of fees and costs that are applicable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

$1000 Invested Since Portfolio Inception
(net of fees and expenses)



Past performance is not a reliable indicator of future performance

Since Inception Net Returns In Up And Down Markets



Past performance is not a reliable indicator of future performance

Consumers are voting with their money – in the most recent reporting period, PDD reached over 750mm active users and its revenues grew over 60% year over year, compared to flattish for Alibaba and 11% for JD.

We had written in our past letters about signs of a more favorable regulatory environment for our Chinese holdings and we are pleased to observe continued positive development. One notable example is around online gaming. The nation's gaming regulator, the National Press and Publication Administration ("NPPA"), approved nearly 150 new games during the December quarter. This was much higher than the previous two quarters and a stark contrast to the second half of 2021 when no new game was approved at all. Furthermore, the state-owned media outlet, People.cn, ran an opinion piece in November 2022 that highlighted the value of the game development industry in 'further innovation for broader industries that extend beyond online gaming' [1]. We remain excited about Tencent – as domestic gaming recovers and advertising benefits from re-opening, Tencent is well positioned to resuming strong profit growth in 2023.

Internationally, the Chinese and US regulators continued to make progress at resolving a long-standing issue around auditing the accounting documents of US-listed Chinese companies. The US regulators, the Public Company Accounting Oversight Board ("PCAOB"), announced in mid-December that they could 'for the first time in history, perform full and thorough inspections and investigations' of firms in China. Although this is in no way a clean bill of health in itself, it is comforting nonetheless and largely removes the near-term risks of de-listing for the Chinese companies.

Despite a temporary minor underperformance in a sharply rising market during this quarter, our Chinese holdings are well positioned for 2023 and beyond. These are solid businesses that have become more productive and efficient during the past three years. They remain trusted in the minds of consumers. And now they are adapting faster their their peers yet again to provide the best value for money. The average P/E for our China holdings is around 10x, and we are confident that they could grow EPS in excess of 10% through economic cycles.

Our Indian portfolio holdings contributed 57 bps to outperformance for the December quarter. Our bank holdings such as State Bank of India and HDFC Bank contributed positively. Credit growth remained strong - overall loans disbursed by the sector grew 14% for December quarter. Pick up in consumer and business confidence have led to more progressive spending in capital expenditures, which further accelerate loan growth. The leverage and credit quality also remain healthy. The ratio of corporate debt to GDP is at a 15-year low and impaired loans ratios are at a 10-year low. We remain confident in our bank holdings.

2022 was another year of outperformance for the Indian markets. The Nifty rose by 5.9% in local currency and was down by 1.25% in A$ terms. At 21x price to 12-month forward earnings, the Indian markets are also approaching their own historical peaks and notably above the rest of the Asian markets. We still hold an optimistic long-term view of Indian companies but have remained disciplined in our requirement for substantial value latencies before making investments.

Our ASEAN holdings detracted 5bps of performance for the December quarter. We visited Indonesia this quarter and were impressed by the energy and confidence exuded from the business executives we met. The positive momentum from high commodity prices is observed beyond larger cities of Jakarta as consumer companies are easily able to pass on price hikes without any impact on demand. Demand outside the Java region is growing two times faster. Also, the prospect of China re-opening is positive for Indonesia as China is a key driver for commodity demand from Indonesia. We also expect positive momentum in consumer demand from election spending in 2023. We continue to feel good about our consumer and banking holdings in the region.

Our Korean and Taiwan holdings added 66bps to performance. Our holdings outside of Asia contributed 63bps to outperformance. This is mostly from our holdings in semiconductors and luxury consumer product companies. For semiconductor companies such as TSMC and Applied Materials, our long-term convictions remain high. The downturn and cyclicality of the memory business in 2023 is well known and priced in. Over a longer time period, TSMC and Applied Materials have large technology leadership over their peers. There are simply no other companies in the world that could produce the same products at comparable quality and cost. Similarly, luxury companies such as the LVMH Group and Moncler produce at such quality and style that demand for them is likely to be more resilient than the overall economy.

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

- AIA Group (beneficiary of re-opening of China and Hong Kong)
- JOYY Inc (better results on margins and extended buyback)
- LVMH Group (strong results; recovery of foot traffic in Chinese stores)

1 Source: opinion.peopl.cn; http://opinion.people.com.cn/n1/2022/1116/c1003-32567540.html; 16th of November, 2022

- Moncler Group (strong results, especially in Korea and Japan)
- Applied Materials (better than feared outlook for logic and foundry equipment)
- Techtronic Industries (strong result that far exceeds industry peers)
- Pinduoduo (strong growth for both revenue and margins)

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

- WNS (worries about US and European enterprise IT spend for 2023)
- China Mobile (relative underperformer in a sharply rising market)
- Singapore Exchange (relative underperformer in a sharply rising market)
- Inner Mongolia Yili (worries about consumer sentiment weakness and the impact on its high end products)

RECENT PORTFOLIO CHANGES

We initiated a position in **Pinduoduo (PDD-US)**. Founded in 2015 initially as an online fresh food platform, PDD quickly expanded its categories to cover a full range of products. PDD aggregates consumer demand by encouraging large group purchases at very low costs. The platform often then takes the orders directly to manufacturers, further driving down costs. PDD also champions the gamification of online purchases. Shopping is often combined with social and gaming activities. PDD recently expanded into international markets under its overseas brand Temu. As the overall consumer sentiment in China remains weak, we believe PDD is uniquely positioned with its incredible delivery of value for money.

There is large value latency in margin expansion. PDD has improved operating margins substantially, turning profitable for the first time during 2021 and already at ~35% margins by the September quarter in 2022. However, this is still far lower than the 55-60% margins of Alibaba's core eCommerce business.

PDD is still in hypergrowth phase, with revenues growing over 65% and profit more the tripled year over year during the September 2022 quarter. Valuation is attractive at ~20x Price to Free Cash Flows

MEETING NOTES

A helpful catchup with **Lam Research** pointed to well-known (and arguably priced in) memory weakness and still resilient logic demand. Geopolitical risks with an US export ban on chips shipped to China also seemed well analyzed and quantified. We continue like the risk-adjusted value latency of semiconductor companies – any global economic recovery will greatly improve the operating trends, whilst the downside seems to be well priced in at the current levels. Lam Research's share price traded down 41% during 2022 and is at a reasonable, close to historical average P/E of 14x.

As always, we enjoyed speaking to **Tencent's** Chief Strategy Officer. The marked tone of more confidence and optimism around its core gaming and advertising businesses continued. For gaming, the certainty of regulatory body after the national party congress had been helpful. The new regulator appointed approved a large batch of games almost immediately upon taking up office in October.

Tencent is confident for its domestic gaming business to resume growth in the next 1-2 quarters.

For advertising, Tencent's business will be driven by the new video account product and grow much faster than the overall market. We remain excited about Tencent at these levels - 18x P/E vs. 29x historical averages, with 20%+ market cap in listed securities (and another 10% in unlisted) investments that investors get for free.

Meeting with **YUM China (YUMC)** pointed to a company that is doing its very best in a very difficult macro environment. The gap between its restaurants and the rest of the industry has widened significantly. YUMC is charging ahead with store opening – it is committed to over 1,000 net additions per year. YUMC is also actively capitalizing in any opportunities presented in the downturn such as favorable rent concessions.

We enjoyed our meeting with Vivek Agarwal, CFO of **Unilever Indonesia (UNVR ID)** on their campus in Jakarta. Indonesia is one of the most exciting markets for the Unilever Group globally. Unilever Indonesia enjoys a leadership position across a wide array of home and personal care categories such as shampoos, soaps and deodorants. Its overall market share in all fast-moving-consumer-goods segment is as high as 37%. However, over the past five years, its relative performance has lagged, as the company was slow to adapt to new consumer trends and partner with modern retailers. Under its CEO Ira Noviarti, UNVR brought in a new team and has already started to re-focus on launching new products and building closer relationships with distributors. We believe these are steps in the right direction. We have added UNVR IR to our level 1 watchlist.

We had an interesting first meeting with Ms. Ratih Darmawan, head of Investor Relations at **Mitra Adiperkasa (MAPI)** in Jakarta. MAPI has a large retail portfolio of 150 exclusive brand partnerships in fashion, sports, food and beverage. Many of these brands are well known household names such as

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Zara, Starbucks and Apple. MAPI operates an efficient, single integrated IT system across all the brands. It also enjoys economy of scale in rental and advertising spent. Across its portfolio, rental costs as % of revenues are lower than 10%, as the group is an anchor tenant across all premium shopping malls and holds significant bargaining power.

Operating trends have been very solid after COVID, with all business segments achieving higher than pre-pandemic levels. MAPI is also progressive at bringing its business online. It operates 26 online stores and is present across 11 marketplaces. Contribution from online sales have increased to 10% compared to 2% in 2019. Valuation is very reasonable at 13x' Dec 23 earnings, a multiple that is 33% lower than its long-term average. Further value latencies lie in large retail brands such as Zara & Starbucks attaining higher profitability levels as the group's scale grows.

We had an enjoyable meeting with **Mayora Indah** (MYOR ID), one of Indonesia's leading packaged food companies with strong global presence. Its well known products include the Danisa biscuits and Kopiko coffee candies. MYOR generates over 40% of revenues from exports and exports are growing at nearly twice the rate as domestic business. Operating trends have been very solid, with consistent revenue growth of 15% over the recent years.

We observe substantial value latencies around premiumization and outsourced production. Its recently launched new products command higher prices and enjoy meaningfully higher margins. It is also embarking on outsourcing production projects to improve its return on capital ratios. Currently, MYOR's returns were merely 10%. We have observed other successful examples such as Britannia where its return on capital returned doubled from 10% to nearly 20% over a decade. We believe if properly implemented, MYOR has similar potential.

PORTFOLIO ATTRIBUTES

Industry Sector Breakdown	
Consumer	29%
Information Technology	17%
Financials	30%
Communication Services	12%
Real Estate	0%

Portfolio Attributes[2]	
Number of stocks	28
Number of stocks outside of Benchmark	11
Beta	0.95
P/E (x)	15.0x
ROE %	15%
Price to Free cashflow	18.5x

Regional Breakdown	
China and Hong Kong	39%
India	20%
Korea and Taiwan	9%
ASEAN	16%
Europe and Japan	9%

Subsets of Value Breakdown	
Stalwarts	50%
Growth	19%
Cyclicals	15%
Turnarounds	11%

2 Source: UBS Quant Answers / Factset