

## August 2008

### Performance

We said last month that we expected to see the US Dollar strengthen, commodity prices weaken and, as risk aversion lifts, emerging market equities surge. So far we have been right on the first two counts but badly wrong on the third: the NAV of our Asia Fund fell a further 3.2% in August.

In truth, several of our consumer names have reported strong results as a result of which their share prices have held up well. The carnage in share price terms is taking place in the property and banking sectors of our portfolio. At the risk of catching a falling knife and slashing an artery we have continued to add here.

Currency headwinds with, for example, the Korean Won, Philippine Peso and Indian Rupee down 7.1%, 3.5% and 3.1% respectively, explain much of August's negative performance.

We suspect we are approaching a moment of truth in Asia. US Dollar strength usually results in liquidity flowing back out of emerging markets. Then we shall see how many skeletons (i.e. banks with large exposure to toxic debt and companies with hidden US Dollar borrowings) float out of the detritus.

News that 16% of Korea's foreign exchange reserves are parked in Freddy Mac and Fanny Mae bonds is just one such example. We don't anticipate any bones in our consumer closet but that won't stop our men falling with the rest until sentiment turns.

### Investment Team

We have made two major changes to our investment team. Justin, who has run our ASEAN Fund, and Rory, our Head of Research, have swapped places.

Justin will bring a fresh perspective to the research effort supporting our Product Heads with a sitting-back-from-the-coal-face brief to generate bigger picture ideas and undertake cross-country sectoral comparisons. He will also be in charge of training up our younger analysts.

Rory, who has spent the past six months poking around Eastern Europe (we have put this project on hold) will take over as ASEAN Product Head. He has set off like a rocket with trips to the Philippines, Malaysia and Thailand already under his belt. In between times, he has been keeping Henry Root up late at night.

We have decided also to downscale our Korean activities coming reluctantly to the view that Korea is morphing into a latter-day Japan. Having scoured the market for the past umpteen years we simply have to accept that there are insufficient investible consumer ideas to justify a three person research team.

FUND DETAILS:	as at 31 August 2008					
	AAF*	ASEAN	AIF	AGCF	AKF	ACAF
NAV (US\$):	24.60	35.24	45.64	27.86	46.78	6.22
SIZE (US\$M):	1,496.2	418.5	531.0	775.9	171.2	19.3
UNITS ISSUED (M):	60.8	11.9	11.6	27.8	3.7	3.1
LAUNCHED:	31.12.96	1.4.98	11.6.99	1.6.00	6.10.00	2.7.07
AAF% HOLDING:		20.1	25.7	42.3	10.1	1.3

\* AAF is a holding fund investing in our five specialist sub-regional funds.

So we have taken the difficult decision to bid farewell to our Product Head, Mi-Eun, and junior analyst Keith. Our third analyst, Shi-Young, who has been with us since 2000, will help Lindsay manage this five stock portfolio from Singapore. We plan to retain an office in Seoul for the time being as we evaluate how this approach works.

Meanwhile the whole investment squad assembled in Singapore for three days in August for a love-in and training session. We reviewed two extra features that have been added to our financial models - one ascribing a fair value to a business based on fifteen year assumptions (to help us with the concept of "horizon investing") and the other a model to help value property companies based on the development value of their land banks.

### Results - China

Despite the miserable global backdrop our companies have continued to chunk out strong results, in some cases ahead of our expectations. Touching wood, we have not had any major disappointments.

Of course history is not the point. The million dollar question is whether Asia now slows sharply. Although we could be accused of mindless optimism we simply don't expect domestic consumption to collapse. Indeed the flip side of a resurgent US export machine will be renewed focus within the region on domestic consumption.

Our Chinese supermarket chains led the way. Shanghai based Lianhua, our largest holding, reported a 62% increase in first half net profit driven by the long-awaited turnaround of its hypermarket business. There remains significant upside should operating margins reach our 2% target from the 0.9% currently.

Likewise, Wumart, which dominates the Beijing area, reported 37% profit growth for the first half. The share prices of Lianhua and Wumart were up 24% and 7% in August and are up 28% and 20% respectively year to date.

PERFORMANCE TO 31 August 2008 (%)										
Performance	10 year	5 year	3 year	2 year	1 year	6 months	1 month	YTD	Since Launch	Annualised Return
Arisaig Asia Fund (%) *	+575.5	+97.7	+38.5	+14.8	-18.7	-21.3	-3.2	-26.8	+266.8	+11.8
Arisaig ASEAN Fund (%)	+318.0	+66.0	+36.5	-1.2	-22.3	-23.2	-4.2	-28.5	+252.4	+12.8
Arisaig India Fund (%)	N/A	+210.3	+30.9	+20.8	-18.7	-28.9	+1.1	-39.5	+356.4	+17.9
Arisaig Greater China Fund (%)	N/A	+72.6	+51.4	+28.9	-10.2	-15.9	-3.5	-15.2	+178.6	+13.2
Arisaig Korea Fund (%)	N/A	+108.8	+35.2	+5.0	-27.2	-17.5	-8.9	-27.6	+367.8	+21.5
Arisaig Central Asia Fund (%)	N/A	N/A	N/A	N/A	-36.6	-29.6	-15.4	-26.7	-37.8	N/A

\* Reflects the performance of the Arisaig Asian Small Companies Fund from 31.12.96 to 21.1.00 and thereafter the performance of AAF.

Similarly, our two Chinese confectionary companies, Want Want and Hsu Fu Chi, reported profits up 54% and 35% respectively. Despite higher raw material costs, they both managed to maintain overall margins through changes in product mix, price increases and greater economies of scale.

Want Want's share price rose 15% in August and is 16% above its March IPO price. The share price of Hsu Fu Chi, which remains off radar screens, has not budged all year.

We own 7.2%, 5.4%, 0.9% and 8.1% respectively of these four businesses. We know them intimately; indeed the Chairman of Want Want flew down to Hong Kong in his private jet to update us on the results. Trading on FY 2008 PERs of 23.5x, 22.1x, 23.5x and 9.7x they are cheaper than they were, but not as cheap as we would like.

Other first half results worthy of note include 65% net profit growth posted by education provider New Oriental Education, 54% by supermarket operator Wuhan Zhongbai, 31% by F&B company Uni-President China and 69% by backpack/luggage retailer China Zaino.

None of the chief executives of these businesses with whom we have spoken recently believe that growth will slow meaningfully.

### And India

Indian results too have surprised on the upside. Our largest holding, food group, Britannia Industries, reported 27% growth in net profits. The share price has yet to react but it won't be long before the efforts of the new CEO are finally rewarded.

Hair oils and cosmetics producer, Marico, reported revenue growth of 28% as it continues to take market share from the "unorganised" sector. Profit growth was restricted to 15% but we expect a price increase in the best selling product, Parachute, to boost margins going forward.

Other results from our consumer holdings in India, which go to show that all is not doom and gloom, include: Tata Tea (up 66%); Educomp (up 182%); Godrej Ind (up 58%); Balaji Telefilms (up 21%); Nilkamal (up 80%) and Geodesic (up 103%).

The eclipse of so-called "disorganised", off the back of a bullock cart, retailing, which accounts for about 95% of retail sales in India today, by organised trade (i.e. supermarkets, convenience stores, pharmacies and the like) has decades to run.

There were however disappointments from a few of our smaller holdings. Hair dye producer Godrej Consumer, truck maker Eicher, paint company Kansai Nerolac and dairy Heritage Foods reported profit growth flat to marginally down; but in each case for acceptable, short term reasons.

Meanwhile our Indian financials generally reported good figures: Srei Infrastructure (up 80%); India Infoline (up 118%); Indusind Bank (up 41%); and ING Vysya (up 66%). Profits at Indian Bank (up 3%) and Canara Bank (down 49%) struggled due to paper losses on government bonds. If there are going to be unpleasant surprises in our portfolio over coming months it is in financials, such as these, where they will reside.

### Political Intrigue

Like the re-running of a bad movie, Thailand lurches from one political crisis to another. Frankly, it's easy to lose track of who is in power given the changing tenants at Government House and the hastily arranged departures of Thai Airways.

Ex PM Thaksin seems to have disappeared, last seen boarding a plane for Beijing and alighting in London. Perhaps he was simply following the Olympic torch.

Meanwhile in Malaysia Anwar Ibrahim took time out from preparing for his forthcoming sodomy trial to return to Parliament after a land-slide victory in the Penang by-election.

Unthinkable only a few months ago, Anwar's People's Alliance coalition needs only a further 30 seats in the 222-seat Parliament to claim a majority. He claims to have sufficient crossover votes in the bag. We will wait for his stated 16th September deadline to form a Government to see whether he was confusing cross-voting with cross-dressing.

Although our visit to Malaysia yielded no new ideas, it did strengthen our convictions in respect of a number of the Fund's core holdings. Alliance Financial, KPJ Healthcare and KFC, for example, posted 37%, 63% and 27% first half earnings growth.

These businesses should continue to do well and not just on account of a pinker Ringgit. Valuations are supportive at 9-10x FY08 earnings for all three.

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	ASSET ALLOCATION (%)						SECTOR ALLOCATION (%)						
	AAF	ASEAN	AIF	AGCF	AKF	ACAF	AAF	ASEAN	AIF	AGCF	AKF	ACAF	
Hong Kong	8.8			20.7			Food, Beverage, Tobacco	23.1	14.4	16.1	28.2	26.4	54.6
China	25.9			61.6			Consumer Products	7.5	1.8	11.4	0.9	28.7	
Taiwan	5.2			12.2			Retail	17.6	8.4		36.9		
Korea	8.4				83.9		Media	1.5		2.1	2.2		
India	21.0		81.6				Services	11.2	23.8	9.8	3.2	14.9	
Sri Lanka	1.6		6.2				Pharmaceuticals	2.5	2.6	3.9		4.9	
Pakistan	1.3		5.0				Manufacturing	6.2	5.4	13.8	0.9	5.6	
Bangladesh	0.5		1.9				Property	7.1	6.9	7.1	8.2		
Singapore	2.7	13.4					Finance/Insurance	15.4	22.2	22.9	8.8		29.3
Malaysia	6.3	31.2					No. of Holdings	109	24	37	33	10	5
Thailand	3.7	18.4					Ave Mkt Cap (US \$m)	989	588	700	1215	1607	796
Philippines	5.9	29.7					VALUATION (Dec'08/Mar'09)						
Indonesia	0.9	4.6					PER Weighted (x)	15.4	13.6	14.4	16.7	16.2	17.0
Vietnam	0.3	1.3					PER Harmonic (x)	11.8	10.0	11.9	12.4	13.3	9.1
Kazakhstan	0.8					59.6	Yield (%)	3.0	4.6	1.6	3.5	1.6	2.9
Georgia	0.4					28.1	P/BV (x)	2.7	1.8	3.4	2.7	2.9	1.7
Cash	6.3	1.4	5.3	5.5	16.1	12.3	ROCE (%)	28.3	19.9	21.6	38.6	18.8	15.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	EPS Growth (%)	18.7	10.8	20.2	18.1	32.1	28.8

The Arisaig family of Funds are daily valued, open-ended, BVI or Mauritius domiciled, Investment Companies, listed on the Irish Stock Exchange. The Funds' NAVs are shown in the Financial Times and on Bloomberg. This Diary is intended to be for the information of holders of one or more of Arisaig's Funds. It is not intended to constitute investment advice and should not be relied upon as such. Investors should be aware that, as the Funds are invested in the securities of smaller companies, share prices can be more volatile and trading liquidity much lower than those of larger companies.