

January 2008

## Performance

Market volatility has been extreme with talking heads the world over lathering up a sweat of despondency. Our markets did a lot worse than both those in USA and Europe (as usual). We took a beating, on virtually no specific stock news, with the NAV of the Asia Fund falling 10.1% in January.

It is pointless speculating on the trials of monoline insurers, the future of the securitisation industry (it always felt dodgy to us) and American and European banking woes. We have no view on any of this. In fact, we have turned off our Bloomburys as we usually do when the world embarks on a bout of frenzied uncertainty.

Who, for example, based on the events there in late December, would have predicted that Pakistan would be Asia's top performing market in January, down only 2.1%?

Clearly if the world slows, as seems inevitable, some sectors in Asia will feel the pain, notably exporters and cyclicals such as shipping stocks and the like. We have zero exposure here as our portfolio is almost 100% in businesses that cater to the domestic consumer.

Background turbulence notwithstanding, Asia remains in rude good health. Debt levels at individual, corporate and government levels are modest. Investment as a share of GDP is at a historic low level. Capacity utilisation is high and so declines in demand can be absorbed more easily. Real interest rates are low (and even negative in some countries) supporting property markets.

For sure margins in some sectors will be hurt by rising wages, especially in China. But this ought to be offset by declining commodity prices that will follow a slowdown in the West.

A huge infrastructure boom is only just starting. India is talking about spending USD 350 billion on roads, airports and ports etc over the next five years and the Chinese have earmarked USD 250 billion just for railways. Liquid banking systems and huge foreign exchange reserves mean that much of this will be self funded.

We do not think the wheels are about to fall off in our neck of the woods. That said there are clearly two risks. Firstly that weaker manufacturing activity depresses domestic consumption. This is possible on the margin especially to the extent that local consumption has been buoyed by booming stock markets.

But as our exposure is generally to ordinary, everyday life staples we doubt the impact will be severe. The second risk is that, even if earnings hold up, our stocks are de-rated.

## FUND DETAILS:

as at 31 January 2008

	AAF*	ASEAN	AIF	AGCF	AKF	ACAF
NAV (US\$):	30.23	43.99	65.69	30.53	56.48	8.52
SIZE (US\$M):	1,909.0	533.6	651.0	852.5	403.3	26.5
UNITS ISSUED (M):	63.2	12.1	9.9	27.9	7.1	3.1
LAUNCHED:	31.12.96	1.4.98	11.6.99	1.6.00	6.10.00	2.7.07
AAF% HOLDING:		19.3	25.0	35.4	17.8	1.4

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

## Valuations

Accordingly, we have spent the last few weeks taking a long hard look at our forecasts to see where prospective valuations have got to. The position is as follows.

Earnings growth in 2007 looks like coming in at about 37% for our portfolio based on interim and quarterly numbers reported to date (this number is an amazing 53% in India).

The Asia Fund portfolio is trading, therefore, on a weighted average historic PER of 18.4x. On a harmonic mean basis (in many ways a more appropriate measure as it is smoothed the distortions of outliers) the number is 14.7x.

We are forecasting weighted average EPS growth of 25% across the portfolio in 2008. This would put the portfolio on a weighted average forward PER of 15.3x, or 12.6x on an harmonic mean basis.

This forecast may seem high to those in the West staring down the barrel of collapsing property markets etc. but when viewed on a case-by-case basis looks comfortably achievable. For example:

## The news bottom-up - first India

In India our largest holding, biscuit maker Britannia, reported 177% EPS growth for the third quarter. Measures introduced by the new CEO (we believe that we are still the only foreign investor to have met her) to improve the product mix, distribution reach and production efficiency are starting to pay off.

There is no reason not to expect sales of USD 700 million to reach USD 1.5 billion five years from now and net margins to expand from last year's 4.7% to over 8%. On this basis 17.5x March 2008 earnings does not feel expensive to us.

We expect the share price to double over the next eighteen months on news that the spat between joint controlling shareholders, Danone and the Wadia family, is resolved.

## PERFORMANCE TO 31 January 2008 (%)

Performance	10 year	5 year	3 year	2 year	1 year	6 months	1 month	YTD	Since Launch	Annualised Return
Arisaig Asia Fund (%) *	+493.8	+219.2	+80.6	+41.4	+17.9	-5.9	-10.1	-10.1	+350.7	+14.5
Arisaig ASEAN Fund (%)	N/A	+176.8	+59.5	+41.8	-1.3	-12.0	-10.7	-10.7	+339.9	+16.2
Arisaig India Fund (%)	N/A	+566.2	+144.9	+60.8	+34.8	+12.9	-13.0	-13.0	+556.9	+24.3
Arisaig Greater China Fund (%)	N/A	+152.1	+59.1	+44.0	+21.6	-7.6	-7.0	-7.0	+205.3	+15.7
Arisaig Korea Fund (%)	N/A	+204.8	+89.6	+17.1	+12.7	-16.0	-12.6	-12.6	+464.8	+26.7
Arisaig Central Asia Fund (%)	N/A	N/A	N/A	N/A	N/A	-14.8	+0.5	+0.5	-14.8	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.

Although one of India's largest food groups the stock remains illiquid (it has taken us a year to accumulate our 5.8% block). Once this bout of nerves subsides, other institutions will be bidding us for our shares at much higher prices.

The same can be said for hair and skin care company Marico which reported third quarter profits up 62% yoy, amazingly its seventh successive quarter of plus 20% net profit growth.

When we bought our block of 3.2% of the company in 1999 the business recorded sales and net profits of USD 150 and 9 million respectively. These look like reaching USD 480 and 41 million in the twelve months to March 2008. Meanwhile the share price has risen nine times over this period.

We anticipate sales reaching USD 750 million by 2011 and margins expanding still further, in which case the stock is trading on only about 1.2x sales and a prospective PER of 12x.

Likewise Tata Tea, India's largest tea brand and owner of Tetley Tea, reported third quarter profits up 83%. The company plans to use the USD 1 billion earned from its sale of Glaceau Water to Pepsi to expand the reach in India of its Mount Everest bottled water (the capacity of which is larger, incidentally, than Evian's). The stock, on only 11x March 2009 earnings, should attract more attention as management opens up to the investment community.

About 10% of the Indian portfolio is in public sector banks which trade on single digit PERs and about 1.0 to 1.5x book value. Happily none of them would know what a Collateralised Debt Obligation was if it hit it in the face.

We have used market weakness to add to our property exposure, in particular Godrej Industries which will be the main beneficiary of the recently announced dilution of tenancy rights in Mumbai which had long held back inner city redevelopment.

### Greater China

The story is no different in China. Take for example Wumart, China's leading supermarket operator. Despite the house arrest of its founder on trumped up political nonsense, the business has continued to deliver 9% same store sales growth in 2007 with full year net profit growth of 30% easily achievable.

Plans to expand into new regions are well advanced. Indeed Thiam Soon, Marston and Min spent a day in Yinchuan meeting one of its potential acquisition targets in the North Eastern region.

We have no view as to whether 15.1x December 2008 earnings is cheap or expensive. But what we can say with considerable conviction is that this USD 830 million market cap company will be a multiple of its current size five years from now on the road to becoming the WalMart of China.

Meanwhile, lost in the January turbulence was the news that the pro-China KMT party won a landslide victory in the Taiwan Legislative Yuan elections paving the way for victory for Mr. Ma in the upcoming March Presidential election. Music to our ears.

### Korea

This market has been particularly badly trashed as a result of its heavy export and cyclical dependency. As a result, valuations are now very compelling. For example our largest holding, sauces company Ottogi, trades on only 8.3x December 2008 earnings.

That said business practices remain incorrigibly untransparent. News, for example, that food company Daesang, who had seemed to be responding warmly to Mr. Root's exhortations to sell non-core assets, will be assisting Kumho's acquisition of poorly run trucking group Korean Express, was particularly disheartening.

The only explanation can be that the Chairman of Daesang is married to the daughter of the founder of Kumho. Trading family favours at the expense of shareholder value is precisely what keeps the KOSPI at 1600 rather than 3000.

### ASEAN

Valuations are equally compelling in ASEAN. One of our fund's largest holdings, confectionary company Universal Robina, for example, is trading on 9.1x September 2009 forecast earnings.

Meanwhile news from the ground continues to get stronger. Justin reports from Manila that loan growth is accelerating and that long overdue FDI and infrastructure plans are on the runway. For example Hanjin Heavy of Korea will be building a USD 2 billion shipyard in Mindanao.

It seems that neither monoline insurance nor Californian sub-prime mortgages featured in the discussions. Once this storm passes we see no reason for our markets not to snap back sharply.

ARISAIG PARTNERS, 7A Lorong Telok Singapore 049019  
Tel (65) 6532 3378 / Fax (65) 6532 6618 31 January 2008  
Website: www.arisaig-partners.com

	ASSET ALLOCATION (%)							SECTOR ALLOCATION (%)					
	AAF	ASEAN	AIF	AGCF	AKF	ACAF		AAF	ASEAN	AIF	AGCF	AKF	ACAF
Hong Kong	19.5			55.2			Food, Beverage, Tobacco	23.1	9.9	15.1	24.5	41.7	21.9
China	1.7			4.9			Consumer Products	11.2	7.0	11.0	10.5	18.4	
Taiwan	12.6			35.6			Retail	12.8	6.7		29.6	4.8	
Korea	17.7				99.6		Media				0.9		
India	21.3		85.2				Services	12.3	18.3	16.4	4.0	14.8	
Sri Lanka	1.6		6.2				Pharmaceuticals	2.3	2.3	4.0		2.2	
Pakistan	1.7		6.7				Manufacturing	7.5	10.0	12.7	0.8	4.8	
Bangladesh	0.5		2.2				Property	8.8	17.0	6.6	8.6		
Singapore	3.9	9.2		5.7		7.4	Finance/Insurance	19.4	24.3	25.2	16.0	8.1	37.7
Malaysia	5.9	30.6					No. of Holdings	127	29	38	35	21	4
Thailand	3.1	16.3					Ave Mkt Cap (US \$m)	1126	656	993	1306	1426	1835
Philippines	6.9	35.9					VALUATION (Dec'08/Mar'09)						
Indonesia	1.4	7.2					PER Weighted (x)	15.3	12.4	15.4	16.5	15.9	14.3
Vietnam	0.1	0.6					PER Harmonic (x)	12.6	10.9	12.8	13.5	12.8	13.9
Kazakhstan	0.5					30.8	Yield (%)	2.9	4.3	1.7	3.7	1.7	0.8
Georgia	0.4					29.0	P/BV (x)	2.7	1.9	3.9	2.5	2.2	2.5
Cash	1.2	0.2	-0.3	-1.4	0.4	32.8	ROCE (%)	20.3	20.2	20.2	21.0	19.5	17.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	EPS Growth (%)	25.1	16.0	29.3	22.0	34.9	31.4

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.