ARISAIG ASIA DIARY

March 2010

ARISAIG PARTNERS
INVESTMENT MANAGERS

Performance

The Arisaig Asia Fund rose 7.5% in March, taking the gain for the year to 8.0%.

In response to client queries about benchmarks, we have decided to use the MSCI Asia ex-Japan (Net) Index. This Index is inclusive of dividends net of withholding tax and is available with effect from 31st December 2000. We prefer MSCI to FTSE as the former offers sector sub-indices, such as for Consumer Staples, and also provides index EPS numbers.

It is interesting to note the significant impact that dividends have had on total returns. The MSCI Asia ex-Japan (Gross) Index, which is inclusive of dividends gross of withholding tax, is up 165.9% over the past 12 years, whereas the MSCI Asia ex-Japan (Price) Index, which takes no account of dividends, is up only 97.4% over this period.

Over the nine months since the refocusing of the Fund, its NAV has risen by 41.8%. This compares to plus 28.4% for the MSCI Asia ex-Japan (Net) Index. The Arisaig Asia Dominant Consumer Companies Index, meanwhile, which is made up of the 54 stocks in our most narrow universe, was up 42.1%.

The names in the Arisaig Index which have done particularly well, but which we don't own, include P&G India - we worry about the parent's long term commitment to its listed subsidiary; the Chinese dairy Yili which recovered from the melamine scandal of 2008; and the two breweries Tsingtao and United Breweries. We have been accumulating a holding in the latter.

Restructuring

We are pleased to report that investors holding 70.5% of the share capital of the Asia Fund voted in favour of the restructuring proposals that we outlined in last month's Diary. The specialist sub-funds have, therefore, been wound up; the Asia Fund will now be known as the Arisaig Asia Consumer Fund; and the management fee on the Fund has been cut from 1.75% to 1.5% on a sliding scale to 1.0%.

So as not to deluge our investors with separate monthly reports, we will be publishing one Diary newsletter from April onwards. This will cover the Arisaig Asia Consumer Fund as well as the Arisaig Africa Fund and the Arisaig Latin America Fund.

The Latam Fund, still at the pilot stage, has been fully invested since the end of October 2009 and consists of 16 holdings, each dominant consumer businesses, across five markets. It has been performing very well. We are excited about its prospects and plan to open it to third party subscriptions later this year.

FUND DETAILS:	AAF*	ASEAN	AIF	AGCF	AKF
as at 31 March 2010					
NAV (US$):	28.68	35.11	46.24	38.39	58.64
SIZE (US$M):	1,432.4	195.5	553.0	601.4	95.2
UNITS ISSUED (M):	49.9	5.6	12.0	15.7	1.6
LAUNCHED:	31.12.96	1.4.98	11.6.99	1.6.00	6.10.00
AAF% HOLDING:		13.7	38.6	42.0	6.7

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

Results roundup

Our largest holding, supermarket operator Wumart, reported a 21% increase in both revenue and net recurring profit for 2009. Same store sales growth at 6.9% for the full-year was probably the highest in the industry. The company is dominant in Beijing, and is now aiming to replicate this position in neighbouring Tianjin. As this operation moves towards breakeven point, Wumart's impressive 4.1% net margin should expand even further.

Tingyi, the Chinese noodle and bottled drink company, delivered 19% revenue growth and 47% profit growth. Gross margins increased thanks to lower input costs. Whilst margins may come under some pressure this year, Tingyi has an enviable track record of cutting costs through efficiency - for example, it plans to reduce the amount of plastic used in each bottle.

Want Want's revenues were up 10% and net profits by 19%. Top line growth was constrained as a result of an over-stocking mistake in the rice cracker division - the company is currently restructuring supply chains to prevent future problems. The beverage division remains the key growth driver, notching up a 49% increase in revenues. That said, we are eyeing with some anxiety its new plan to enter the highly competitive RTD tea sector, dominated by the likes of Tingyi, Nestle and Coke.

Unilever Indonesia extended its extraordinary track record (EPS growth has compounded at 27.3% since 1995) by announcing 17% revenue growth and 26% net profit growth for 2009 with the skin care, deodorant, ice cream and fruit juice categories registering the strongest growth.

Hong Kong convenience store operator, Convenience Retail, reported revenue and net profit growth of only 0.8% and 1.6% respectively, the result of adverse regulatory changes last year. Whilst this holding remains a sleeper for now, we have no doubt that the top quality management team has exciting plans up its sleeve.

PERFORMANCE TO 31 March 2010 (%)

Performance	10 year	5 year	3 year	2 year	1 year	6 months	1 month	YTD	Since Launch	Annualised Return
Arisaig Asia Fund (%) *	+179.0	+68.6	+9.8	-2.3	+91.6	+21.2	+7.5	+8.0	+327.6	+11.6
Arisaig ASEAN Fund (%)	+128.4	+38.3	-21.4	-20.2	+62.7	+9.4	+7.7	+12.0	+251.1	+11.0
Arisaig India Fund (%)	+90.2	+63.4	-1.7	-18.1	+100.0	+24.4	+6.9	+10.4	+362.4	+15.2
Arisaig Greater China Fund (%)	N/A	+95.5	+45.1	+17.3	+110.9	+26.8	+7.8	+6.7	+283.9	+14.7
Arisaig Korea Fund (%)	N/A	+77.9	+15.4	+17.0	+70.4	+7.6	+8.0	-1.7	+486.4	+20.5

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

Valuations
When people raise this issue we simply point them to Nestle India. This company, 62% owned by Nestle SA, listed in India in 1978 with revenues of USD 26 million and a market cap of USD 3.5 million. Over the ensuing thirty years, revenues have compounded at 12.7% per annum to USD 1.1 billion and the market cap at 27 % per annum. Of course shareholders have also enjoyed significant dividends along the way.

The average PER based on monthly rolling one year forward earnings has been 29x over the past 320 months. Is this cheap or expensive for a company that generates a net margin of 12.7% and shows return on capital employed of 212%?

What will revenues be twenty years from now? Given that consumption of its principal products (packaged noodles, infant foods, confectionery and instant coffee) is only about USD 1.2 per capita in aggregate, presumably a great deal more than today. Indeed our "S" curve analysis, using as a guide the evolution of consumption for each of these products in other countries, suggests sales could surpass USD 13 billion by 2030.

And, of course, our numbers take no account of the other Nestle products, such as ice cream, water, RTD beverages, weight control and pet care products, which the company is likely to introduce into India in coming years.

Sustainability
A key risk for a company like Nestle, as it has discovered to its cost, is the damage to brand equity from actual or perceived environmental and social abuses. The latest episode here relates to its use of Indonesian palm oil, provoking a viral internet campaign from Greenpeace which accuses Nestle's local supplier of destroying rainforests.

In response, Nestle quickly dropped the supplier in question, and pledged to target the exclusive sourcing of "sustainable" palm oil by 2015. Given the complexities of tracking the original source through Indonesian supply chains, this is a tall order.

Nonetheless, the incident illustrates why consumer businesses suffer an erosion of their core competitive advantage - their brand integrity - if they are seen to stumble on environmental or social issues. Indeed, we see "water stress" as one of the key risks to our holdings, on a par with the more widely publicised, albeit related, dangers of climate change. Indeed, a recent McKinsey report claimed that we've now reached "peak water", i.e. consumption exceeds the existing readily accessible and sustainable supply.

As long term investors, we believe that it is our duty to develop an understanding of these dilemmas and, where appropriate, to help our holdings develop environmental, social and governance (ESG) strategies to take account of the risks and opportunities that they pose.

Our first step was to sign up to the UN's Principles for Responsible Investment, which *inter alia* commits signatories to incorporate ESG analysis into their investment process. We've done this by developing, with consultants, a 100-datapoint checklist that we've completed for each company in our universe - an exercise that we'll undertake annually to measure progress.

The results are quite startling, highlighting the gulf between the best-practice policies typically adopted by locally-listed MNC subsidiaries and the worst companies, particularly in China and Korea, which wouldn't know a carbon footprint if it stepped on them. Henry Root is using the results of this study to educate and explain to the worst offenders why these issues matter.

This exercise isn't about making us feel worthy - it's about de-risking our portfolio from the possible impact of regulatory and environmental change. It's also about efficiency: measuring and reducing inputs such as water and plastic packaging can only help profit margins.

We have also commissioned an ESG research report, again using experts, on the beverage, brewing and bottling industry in Asia. It's not just the report findings that will interest us, but working with experts on its compilation will develop our own ESG analytical skills.

Finally, we've committed to try to put our own house in order by measuring our carbon footprint (660 tons per annum), 75% of which is generated by air travel, and committing to a tree planting offset program in Singapore. We will also be creating, more for fun than offsetting purposes, a half acre vegetable farm in Singapore to be run by Arisaig employees and their families. *Il faut cultiver notre jardin!*

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ASSET ALLOCATION (%)

	AAF	ASEAN	AIF	AGCF	AKF
Hong Kong	5.1			12.2	
China	36.9			87.8	
Korea	6.1				91.5
India	32.7		84.8		
Sri Lanka	3.9		10.2		
Pakistan	1.6		4.1		
Singapore	1.2	8.7			
Malaysia	2.0	15.0			
Thailand	0.6	4.1			
Philippines	2.1	15.7			
Indonesia	5.3	38.6			
Vietnam	2.1	15.1			
Cash	0.4	2.8	0.9	0.0	8.5
Total	100.0	100.0	100.0	100.0	100.0

SECTOR ALLOCATION (%)

	AAF	ASEAN	AIF	AGCF	AKF
Food & Beverage	46.4	35.7	46.9	53.7	12.2
Consumer Products	26.5	38.6	41.2		79.2
Retail	4.1	18.7		3.6	
Services	3.7		9.7		
Supermarkets	17.9			42.6	
Other	1.0	4.1	1.2		
No. of Core Holdings	26	5	11	8	2
Top Ten Holdings (%)	60.6	97.2	94.2	100.0	91.5
Top Twenty Holdings(%)	86.9	97.2	99.1	100.0	91.5
Ave Mkt Cap (US $m)	2885	3358	1994	3402	4099
VALUATION (Dec'10/Mar'11)					
PER Weighted (x)	22.8	17.5	23.8	23.7	20.0
PER Harmonic (x)	20.7	15.8	22.4	21.2	19.8
Yield (%)	2.2	2.6	2.0	2.4	1.3
P/BV (x)	8.1	7.9	11.8	5.3	5.1
ROCE (%)	48.2	48.1	69.8	31.6	26.0
EPS Growth (%)	17.8	18.8	18.5	16.0	25.1