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While we do not invest in companies listed outside of Canada and the U.S., we appreciate the thoughts of someone who does; our friend Robert Lloyd George – an incessant traveller and researcher, from his base in Hong Kong, for over 30 years.

Enjoy! Comments and questions welcome.

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Investment Outlook

Inflection Points

The study of historical cycles has, for many years, suggested a seasonality and decennial cycle in sunspots, human psychology, and stock prices. The mania of 2017 reflects closely the mania of 2007, or even perhaps 1999 (1997 in Asia), which was followed by the "dot com" bubble and collapse.

The narrow character of the market's steady ascent, for months now, has been focused on the FAANGs (Facebook, Apple, Amazon, Netflix, Google) in the US market and BATS (Baidu, Alibaba, Tencent, as well as TSMC, and Samsung) in Asia. One must ask oneself how far this phenomenal rise in technology valuations can go, and is it justified by future earnings? The market has possibly discounted too far forward as it did in 2000 - interest rates will rise, growth will slow, property will depreciate, and share prices will most likely follow.

In May, we had two important elections. I was in Paris on Sunday, May 14, at the inauguration of Emmanuel Macron, who has impressed all observers by his youthful energy and determination and the expected success of his party, En Marche, in the legislative elections coming in June. Simultaneously, in South Korea, Dr. Moon Jae In has overturned ten years of conservative rule, following the impeachment of President Park and formed a strong reforming government, which is likely to try to improve relations both with North Korea and with China and possibly remove the American Missile Defense System (THAAD). More importantly for investors, Dr. Moon has

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appointed some longstanding advocates of corporate governance reform to target the top four Chaebol groups - that is, Samsung, Hyundai, LG, and SK. Between them, these four account for 50% of the Korean market capitalization.

The Kospi, or Korean Index, is now on 1X book and 9X earnings, even though it has risen by 25% this year, based on earnings growth and, in particular, on the strength of Samsung Electronics, which is about one-third of the market. But the market still has great potential to get re-rated if the reform effort is successful in persuading these large Korean conglomerates to restructure and reward their shareholders properly (as we have seen happen in Japan in the past three years). The Korean companies are cash rich and pay very low dividends, and we expect to see a significant improvement in the next two years, which could result in a 50% premium improvement in the multiple of the Korean market.

In addition, we are seeing improvements in the least-loved market in Southeast Asia - that is Malaysia, where the ringgit is up 5% against the dollar and the economic growth has accelerated to nearly 6%. Indonesia and the Philippines are more popular among investors, but we see more risk, both political and economic, as their monetary policy tightens.

For the month of May the mid-cap index in India fell by 4.2% (in dollars) while the large cap index gained by 2.4%. Both domestic institutional investors as well as foreign institutional investors were net buyers, and we believe the volatility in mid cap stocks was generated by high networth investors. However, the market is happy with the March 2017 quarterly earnings and is looking forward to a further 20% profit growth in the year to March 2018. Initial views for this year’s monsoon forecast have been normal according to the Indian national weather service. The Goods and Service tax appears to be on track for implementation by July 1, 2017 and this could be supply disruptive in the short term. However, it will benefit the corporate sector and government revenues, in the long run. We are long-term holders of Indian shares and continue our policy of patient accumulation.

Regarding China, there continues to be evidence of economic and business momentum, especially in the internet and travel sectors. With the withdrawal of the USA from the Paris Climate Accord, China is likely to step into the vacuum and become the leader in renewables, both solar, wind, and electric vehicles. This will be a very interesting space to watch, and we should not underestimate the determination of the Chinese to succeed in alternative energy sources, given their own pollution problems.

In fact, both India and China are now rapidly scaling back their coal usage in favour of solar energy. It is these two of the world's most populous countries, representing almost 40% of the world's population, that have accounted for the greater part of the increase in carbon emissions over the past 20 years. Perhaps we should be more optimistic about climate change and about global warming despite the decision of Trump to withdraw the USA from Paris Climate Agreement. In addition, natural gas, in the form of LNG, is becoming a much more competitive energy source in Asia, and is also helping to reducing oil and coal consumption.

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