Alma Victoire Asia SMID Equity Fund

Quarterly Report - 4Q17

Performance Review for 2017

As we close 2017 and look forward to the year ahead with confidence over our ability to continue producing attractive risk adjusted returns for our investors, we thought it would be useful to recap the Fund's performance in 2017. Below, we highlight the key themes and positions driving the portfolio and how we are positioned going forward. By providing a more detailed review and analysis of the performance achieved during this past year, we can illustrate through examples and cases the application of our investment process. In similar vein, we shall continue to publish our thought pieces in the regular quarterly newsletters ahead, sharing with investors some of the key themes pertinent to our portfolio and/or markets.

As our primary aim is to produce absolute returns for our investors with a safer fundamental and economic risk exposure profile, the Fund had a strong 2017 delivering 37.2%, slightly trailing the 38.5% return for the MSCI EM Asia SMID. Whilst we would have liked to have produced a meaningful positive spread over its benchmark, given the Fund's benchmark agnostic nature, differentiated exposure (consistently with an active share of over 99%) and lower risk profile in terms of the high-quality nature of our holdings and overall lower portfolio beta profile, we are pleased with Fund's performance results for 2017. More importantly, our Strategy's long-term performance remains well above its benchmark.

What Worked...

The broader themes we have long been running in our portfolio have continue to worked well for us: within the IT sector, the exposure to best-in-class component makers within the Apple supply chain (i.e. casing maker Catcher Technology, flexible PCB makers Zhen Ding and Flexium), higher performance data storage solutions (i.e. solid state drive (SSD) and NAND memory controller maker Silicon Motion) and rising data transmission intensity and connectivity (Inari Amertron and Win Semi), have produced stellar results for the Fund and have been, collectively the main driver of returns for the Fund in 2017. Within the Financials sector, our selectiveness in this space as an alternative exposure to an otherwise expensive consumer sector as well as generally low financial penetration in many of our markets, has also yielded strong return contributions (i.e. Military Bank in Vietnam, Tisco Financial and Krung Thai Card in Thailand, Metropolitan Bank & Trust in Philippines and City Union in India). Finally, some individual stock specific ideas backed with well thought out investment thesis, comprehensive analysis and due diligence produced some meaningful results (i.e. Hangzhou Hikvision, a leading camera and surveillance system provider in China that sharply de-rated on growth concerns which we believed were only temporary; Man Wah Holdings, a leading Chinese furniture maker which the Fund acquired at an opportune time on shortly after Trump's election; KT&G, South Korea's leading tobacco and ginseng producer which sold off unjustifiably on Philip Morris' iQOS heated tobacco launch; Nexteer, a leading Chinese auto part component supplier with significant expertise in steering column technology and Tongda, a Chinese casing maker playing on the general theme of specs upgrades on new models by Chinese handset makers).

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And What Did Not...

We were pleased to see our hit rate in 2017 remaining rather high with only 4 holdings posting negative returns, out of the 29 names we invested over the year (average # of holdings in the Fund through the year remained at around 16 positions). Not only that, the magnitude of losses from these were mostly fairly contained, reflecting two broad features of our investment process: a) investing only in quality names which tends to hold up better and have more defensive characteristics; and b) constantly challenging our individual thesis on each holding and exercising high degree of discipline to cut our losses when evidence of thesis no longer holds.

Starting with Best Pacific, we returned to this stock (a position we previously held and profitably exited in 2016) in mid-2017 as the stock traded at reasonable valuation after having had its earnings grown into lower P/E valuation multiples. We thought the business conditions remained stable and that the company continued to offer good earnings growth visibility due to its niche exposures to lingerie and athleisure fabrics. However, we were surprised by the sharp and sudden break in the Company's growth trends which we could not put it down to just temporary inventory de-stocking and/or poor product launches from its customer base. This, coupled with an unexplained rise in inventory levels in its balance sheet as well as the Company's acquisition of additional capacity (at a time when it was clear that it did not them), further raised suspicions on our part that there might be something more serious/sinister going on. We did not hold a large position and considering a potential corporate governance problem brewing, we promptly disposed of the name. Similarly, with China Biologic, a long-held name and one of the strongest alpha contributors to the Strategy since inception, the Company announced a surprise acquisition of a Tianxinfu, a Chinese medical device company engaged in the production of regenerative medical biomaterial products. We not only found the deal expensive and dilutive (despite management claims of limited dilution near-term and actual accretion on a long-term basis), but also fraught with suspicions over potential undisclosed conflicts of interest between management, the selling party (PW Medtech, an HK listed company) and a large common shareholder of both China Biologic and PW Medtech. Given our zero tolerance for corporate governance abuse, we decided to dispose of the position and lock in our long-term profit (although incurring a loss for the year).

The remaining 2 other negative contributors to performance, Bekasi Fajar Industrial Estates and China State Construction International, were both new positions established in the Fund in the 2H17. Both offer deeply discounted value support and based on our assessment, a reasonable growth profile and visibility in the years ahead. The asset intensity of both businesses is not ideal in our view but mitigated by strong balance sheet positions and leading competitive positions in their respective markets. In this context, we have limited our exposure to both names to around 2.5-3.0% each, or about half of our normal core exposure.

Some Repositioning as Part of Our Alpha Evergreening Process

We pride ourselves in our long-term thinking when formulating our investment thesis and selecting stocks for the Fund. We can point to many successful cases of companies identified early on in their development cycle, well before most investors have spotted them, and have patiently allowed these companies to realise their full earnings potential. However, in many

of such instances, as our thesis are successfully validated by the rest of the market, we often find ourselves dealing with positions where their respective valuations have gotten ahead of their fundamentals. How do we realise the most out of our hard-earned stock picks, let our winners run and avoid the risk of not properly capturing most of the alpha potential of an idea? This is perhaps one of the hardest aspects of getting it right and one that is based largely on a qualitative judgement of several factors combined (i.e. balancing valuation levels against earnings growth, sustainability and visibility).

As we diligently reduce our exposure to such overvalued names and eventually exit fully, a dynamic process follows to ensure we recycle such capital into new names that can continue to offer further attractive upside potential for the Fund. It is by ensuring that we constantly recycle the capital out of “fully realized” and/or “broken thesis” and invest into new ideas, we can achieve a sustainable alpha generation process. In this context, it is worth pointing our two main areas we have managed reposition the portfolio’s IT heavy exposure into new segments where we identified higher return upside potential, higher visibility and sustainability of growth. With the value realization in some of the Apple supply chain and Win Semi, we reduced our exposure to the smartphone segment which we see more challenged for growth in 2018 and shifted a material amount of capital (about 15% of the Fund) into the datacenter industry, with a focus on hyperscale segment being driven large cloud service providers such as Amazon Web Services, Google, Microsoft and Facebook. We believe it will only be a matter of time before we see similar levels of explosive growth in this segment by the big 3 IT behemoths in China (BAT: Baidu, Alibaba and Tencent). We outline this theme and the Fund’s corresponding exposure in our 3Q17 newsletter (“The Rise of Data Centers”). The other new segment of exposure gained by the Fund has been to electric vehicles, through our exposure in Samsung SDI. In the later part of 2017, we took advantage of dips on the stock to build a sizeable position (over 6%) into Samsung SDI, one of the world’s leading battery suppliers, as way to gain exposure to the electrification trend of car industry.

Given our selectiveness and value discipline, our alpha evergreening process was particularly challenged in 2017 given the strong rising market environment, especially in the second half of the year. If there was a flaw in the implementation and execution of process in 2017, it was this sub-par execution of this re-investment discipline. Consequently, we allowed cash balances to rise to above normal levels (i.e. average of approx. 20% cash level) which against a strong rising market, resulted in a significant cash drag when compared with its benchmark return. Whilst this is one aspect we will remain focused on and are currently working diligently to find new ideas for the Fund, it is important to emphasize that we consider this the lesser of the two evils – we would never force ourselves to purchase a name in Fund before we have achieved sufficient levels of conviction for the sake of reducing cash levels.

We take the opportunity to thank all of our investors for the trust placed in us over the years and look forward to another exciting year ahead filled with challenges and opportunities.

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