Alma Victoire Asia SMID Equity Fund

Quarterly Report - 4Q18

Performance Review for 2018

Our fundamental value-based strategy faced considerable challenges in 2018, declined -19.5% and suffered its worst annual performance in both absolute and relative terms (MSCI EM Asia SMID declined -15.8%). Despite its quality orientation and exposure to fundamentally sound businesses with strong valuation anchors, the heavy influence from macro themes / concerns over the fallout caused by an aggressive U.S. Fed rate hike cycle and the US-China trade war hindered the Fund from demonstrating it's expected resilience. Whilst we were aware of such dominant risks throughout the year and remained steadfast in our fundamental approach of investing in solid businesses offering long-term value, the idiosyncratic risks and our various investment theses were simply overwhelmed by these macro themes. Admittedly, there were negative surprises on some of our individual holdings that clouded their near-term outlook, but in most cases the price declines were so extreme that reacting to them would mean throwing away our valuation discipline, investment beliefs and succumbing to the irrational panic of markets.

Below, we highlight the key themes and positions that shaped the performance of the portfolio in 2018. By providing a more detailed review and analysis of the performance achieved in the past year through examples, we shall illustrate some aspects of our investment process and philosophy. In similar vein, going forward we shall continue to publish our thoughts regularly through quarterly newsletters, sharing with investors some of the key themes pertinent to our portfolio and/or markets.

What Worked...

Some of the broader themes long reflected in our portfolio had continue to come through, albeit in some cases challenged by short-term noise which prevented their positive operational performance from reflecting in share prices. Within the IT sector, the proliferation of electric vehicles and the aggressive capex cycle on hyperscale servers were both themes that progressed well in 2018. Hence not surprising, our exposure in Samsung SDI (leading electric vehicle battery supplier), Taiwan Union Technology (supplier of PCB materials for server and telecom infrastructure applications) and Accton (high speed data switches), all contributed positively to the Fund's performance. Zhen Ding, the world's largest flexible PCB maker, also contributed positively to performance, being the exception within our reduced but still relevant smartphone supply chain exposure (as a group, the main source of detraction in FY18 for the Fund). Within the Financials sector, our selectiveness in this space as an alternative exposure to an otherwise expensive consumer sector and an investment in the generally low financial penetration in many of our markets, contributed positively to the Fund's performance (i.e. Military Bank in Vietnam, Tisco Financial in Thailand and AMMB Holdings in Malaysia). Had it not been for the macro headwinds that prevailed in 2018, both groups should have delivered even stronger alpha considering their superior operational performance.

Both Samsung SDI and Taiwan Union Tech are well on track to deliver 48% / 13% YoY revenue growth and 18% / 80% YoY net income growth in FY18, respectively. Yet, their share prices only appreciated 2.8% and 6.7% respectively in 2018, being dragged by fears over the US-China tariffs spat and the negative headlines in the auto industry. For our main holdings in financials, Military Bank, Tisco and AMMB should close FY18 with net

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income growth of 60%, 15% and 18% respectively, and yet their share price performance were muted with mild appreciation or small decline.

And What Did Not...

In a difficult and volatile market environment like 2018, it was not surprising to see that most of our holdings declined in absolute terms. It was disappointing to see that despite having stronger fundamentals, some of our holdings did not provide better defensiveness to the portfolio. One example was our largest financials holding, Metrobank in Philippines, which despite boasting of ample excess capital, delivering a stellar 30% YoY growth in net income (driven by core operating earnings) and trading at a valuation discount to peers, saw its stock underperformed. Inflationary pressures, aggressive BSP (Philippines Central Bank) rate hikes and generalized de-rating of the Philippines market all conspired to preventing Metrobank from performing. Our conviction in the name was high, hence led us to add to the name through the early part of the year and later taking profit in December as the position approached our 10% maximum limit for a single stock.

Two of our core Chinese holdings, Haitian International and Nexteer, were also significant detractors with share prices declined -34.1% and -39.2% respectively in FY18, reflecting a disconnect between share price and operational performance / fundamentals. Indeed, Chinese corporates with meaningful export exposure were indiscriminately punished regardless of their reliance on the U.S. market. Despite Haitian and Nexteer both having some export revenues, considering Haitian's limited exposure to the U.S. market (estimated at <5% of sales) and Nexteer's global manufacturing footprint (including production and R&D facilities in the U.S.) coupled with close commercial relationship with major U.S. auto brands, we see limited downside risks to their future earnings even with higher U.S. tariffs on imports. On the domestic front, we are well aware that Haitian's sales may be directed to customers with significant exposure to US exports, but considering its broadly diversified client base and end usage industry applications, we do not believe its sales outlook should be significantly impacted by the trade conflict. We take comfort that even during the GFC years of 2008 / 2009, which was a far more disruptive environment for investment activities, Haitian's sales proved rather resilient. Similarly for Nexteer, we are well aware of the cyclical challenges the global auto industry currently faces, especially with it being at the center of the trade disputes between the U.S. and the rest of the world. However, in both Haitian and Nexteer, we see the negative impact from a more challenging macro environment on earnings being relatively contained: even after accounting for a muted growth outlook for FY19, both businesses are trading at P/E multiples of ~8x now and offer significant upside considering the quality of the businesses, high margins, sound balance sheets and their respective industry positions.

Now on to the two main areas of detraction for the Fund in 2018: our Apple supply chain exposure and our holdings in Indonesia, with each cluster costing the fund about 270bps of alpha detraction. Here we admit to finding ourselves wrongly positioned against adverse developments. In the case of the Apple supply chain, namely through our exposures in Catcher, Flexium and Zhen Ding, we had explicitly aimed to ride these undervalued names through the seasonal upturn of this last iPhone cycle and exit towards the end of the year. Our expectations were that suppliers like Catcher and Flexium, would benefit from higher content share within Apple's products. Unfortunately, we held too benign of a view on the market's expectations on Apple's iPhone volume growth, which quickly turned and led to heavy

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sell-offs on both companies. For Zhen Ding, we managed to exit when the stock performed reasonably well into the 4Q18. Balancing the deeply discounted valuation and largely unaltered long-term business fundamentals against a weaker near-term outlook is one of the challenges of value investing, while so far the decision to adhere to our valuation discipline has proved "wrong" in a sense we could have exited at higher levels, we do not see these businesses as fundamentally broken and are confident that our invested capital will recover over the next 12-18 months.

In the case of Indonesia, the toxic combination of adverse macro developments (i.e. a more aggressive U.S. Fed rate hike cycle and a spike in oil prices early in the year) and poor policy responses by Indonesia's Central Bank (i.e. delay in hiking domestic rates and expansion of fuel subsidies were both interpreted as politically driven), led to a deterioration in foreign investors' confidence and capital flight from the country. This in turn, resulted in significant pressure on the IDR (one of the worst performing currencies in Asia declining as much as 13% from the start of the year to the bottom reached in September 2018). Responding to the subsequent impacts on our Indonesian positions, we managed to mitigate some of the losses by reducing our exposure and eventually exiting this market, yet admittedly significant losses had incurred. On company level, unfavourable operational decisions were also part of the reasons we exited some holdings. The liquation of Lippo Karawaci was driven by concerns over tighter funding conditions and the Company's reliance on external funding to complete its mega Meikarta project. Negative corporate governance developments at Linknet (disguised share buyback program to facilitate one of its controlling shareholders reducing stake in the Company) led us to give up on the Company despite supportive fundamentals and positive operational results. This also reflects our zero-tolerance approach towards corporate governance abuse. Finally for Bekasi Fajar, we decided to exit the name as the nascent investment cycle in Indonesia was cut short by the adverse macro conditions. Although the long-term fundamentals of the Company remained intact and its balance sheet and business model could support the Company through a cyclical downturn, we were mindful of risks of its trading liquidity completely drying up as it is often the case for small cap in Indonesia during market downturns. Hence our decision to veer towards preserving liquidity of the Fund.

Some Repositioning to Take Advantage of New Opportunities

Naturally under the current adverse market condition and indiscriminate selling, opportunities to invest in attractive franchises at cheap valuations emerge. While maintaining a cautious posture and recognizing the negative growth implications caused by the trade tensions and deterioration in business confidence permeating through the region, we have been diligently pursuing and validating new potential investments as they show on our screen.

The current sell-off in Chinese equities, especially the on-shore A-share market, presented us with the opportunity to invest in domestically well-known brands such as Midea and Robam (refer to our 3Q18 piece on Chinese appliances) at valuation levels that would have been deemed impossible just 12-months ago. Similarly, the current excessive pessimism in the memory market has led to a massive de-rating in SK Hynix, the world's 2nd largest memory producer which boasts of leading-edge production technology and one of the lowest cost structures in the industry. We find it noteworthy that investors have remained excessively focused on the near-term cyclical downturn in memory, fearing a worst-case scenario of boom-bust like in

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earlier cycles and choosing to ignore the significant changes in memory market dynamic driven by a consolidated market structure (refer to our 2Q18 quarterly release on the memory industry). We are confident that a more disciplined attitude towards investing in new capacity by the major producers, an ever-rising demand for memory under an increasingly digitalised world and the significant shift in demand taken up by less price sensitive hyperscale server customers should all contribute to a much shallower downturn and more stable profitability for the industry. Somewhat related to this theme, we also found an attractive entry level for Globalwafers, a business which customers, recognizing the tight supply-demand conditions and resilient pricing for silicon wafers, have secured most of the Company's production capacity for FY19 and FY20. This effectively pre-determined the sales volume for Globalwafers for the next 2-years, thus offering a high degree of earnings visibility for the Company. We also saw an opportunity to invest in Lungyen Life Services at an attractive price, an integrated columbarium, cemetery plot developer and funeral services provider, with well-defined plans to expand into the Mainland through a strategic partnership with Sino-Ocean, one of the largest developers and nursing home operators in China.

We take comfort that much of the negative alpha incurred in 2018 can be traced to names whose competitive positioning and long-term earnings prospects remain largely unchanged, giving us confidence that we will recoup our capital in the years ahead. In some cases, we acknowledge that the original investment theses has been pushed out due to negative developments affecting near term earnings and may take a bit longer to play out. Whereas in other cases, we are encouraged by the delivery of operational results supportive of our positive theses but whose share price have yet to perform due to misplaced and/or excessive macro concerns. Even though the deployment of the Fund's excess cash into these new ideas has so far cost performance for the Fund (vs allowing cash levels to rise), we believe those were the times to put fresh capital to work and that over the medium / long-term, these trades will be value accretive for our investors. These legacy positions combined with the new opportunities uncovered in the later part of the year gives us confidence that our current portfolio offers significant alpha potential in the years ahead.

We would like to 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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