Amala

Emerging Asia Fund

Information Sheet | **2nd Quarter 2016**

FUND INFORMATION

FUND OBJECTIVE
To achieve long-term capital growth by investing in equity and equity-related securities of emerging companies in Asia whose businesses are geared towards domestic demand.

LAUNCH DATE
7th July 2015

FUND SET-UP
Cayman Islands Regulated Fund

INVESTMENT MANAGER
Amala Capital Management Ltd,
Cayman Island

INVESTMENT SUB-MANAGER
Nivalis Partners Limited, Hong Kong

ADMINISTRATOR
DBS Bank, Hong Kong

CUSTODIAN
DBS Bank, Hong Kong

SUBSCRIPTIONS / REDEMPTIONS
Monthly :
Minimum initial investment USD 100,000
Subsequent investment USD 50,000
Notice :
Subscription: 5 days
Redemption: 30 days

MANAGEMENT FEE
1.50%

PERFORMANCE FEE
10% with a high watermark

FUND ELIGIBILITY
Professional Investors

Quarterly Commentary

Dear Investors,

Our fund completed its first 12 months of operations at the end of June. At the outset, we would like to thank our day one investors and others who have entrusted us with their money. The year gone has been quite challenging with two distinct periods of sharp market correction during July-August 2015 and January-February 2016. We have ended the quarter with a net NAV gain of 4.61% and we are up 3.55% for the year 2016. Our net return since inception is 2.13%. During this same period, MSCI South East Asia was down 0.77% while MSCI India was down 8.4%.

Our investments in Indonesia, India and the Philippines have gained whereas we are still losing some money on our Hong Kong/China positions. This quarter ended June 2016 was very positive for markets, which continued to build on the recovery that started in March after the very tough start to the year. Our quest to search for high quality businesses that are well positioned and create long-term value continues. We hope our investment philosophy and process hold us in good stead to navigate markets in 2016 and beyond.

Portfolio

This was another busy quarter for the fund. We added a few new positions while scaling up existing holdings. We have created our core portfolio but still have capacity to add a few more names across the region. We still have a decent amount of cash waiting to be appropriately deployed across investment worthy ideas.

Highlighting a couple of names from our current portfolio

In Indonesia we own a discretionary home improvement retailer. This company has a network of more than 100 stores across the nation. It has strong brand equity and a leading market position. Over the last five years it has grown revenues and profits at 24% and 27% respectively while maintaining profitability in 22-25% range. The entire growth, post a small fund raising IPO in 2007, has been internally funded. The company has developed a solid merchandising and sourcing team.

Portfolio

It has also created a very efficient nation-wide logistics and distribution capability. Its business scale gives it a big procurement cost advantage over competition. The company has developed proprietary retail productivity measurement tools, which has helped maintain and improve operating margins over the years.

We have owned this company now for nearly nine months. The opportunity has come to own this name at reasonable valuations in our view as investors sold as growth slowed over the last 18 months. In addition, the company faced increased competition from new market entrants for the first time. The volatile and depreciating Indonesian Rupiah affected its business model and also the slowing growth resulted in an inventory build-up. Based on its past operating history and actions being taken by the management, we feel the company is well positioned to cope with its current business challenges. Our investment in this high quality business is premised on the hope that the company is getting back on its growth path and competition starts waning. For us the still high level of inventory in the system is a risk and an important factor to monitor going forward.

In India we own a leading retail led real estate company. This company has built on a legacy textile mill land what is now regarded as one of the few leading malls in India in the city of Mumbai. Building on that success, in 2007 the company issued fresh equity to set up five new similar sized city center retail led mix use real estate projects. The company has since completed the first phase of all of these projects with some delays and cost overruns. All four new malls are well occupied, as the company has been able to leverage on its existing tenant mix at the highly successful central Mumbai mall. New projects of a similar character would need a lead time of five years and would cost at-least 50-75% more than what the company has spent. This should limit future supply and put a rational floor on rentals.

Investment opinion on this company has been weighted down in the last 24 months by the very aggressive Private Equity funded built out of online commerce in India. Investors seem to believe that the mall based retail business model is broken and most retail commerce would shift online. For us, at current enterprise value, we are probably paying only for the existing retail assets. The upside possibility would arise from ongoing rental revision cycle which will drive a meaningful lift in earnings. In addition, we expect the company to generate cash surplus from the second phase of these projects largely through residential development. Developing REIT regulations should also open up the possibility of fund raising for value creating M&A's and de-levering the balance sheet. Medium term risk to our investment would be the acceptance of the revised rentals and the ability of the company to sell the bulk of its planned residential projects.

During the quarter we visited companies in Indonesia, Singapore and India. We liked a few new names and have added them to our focus list. We intend to do additional research and possibly add a couple of these to our portfolio during the course of the next quarter.

Outlook

We currently still have a good amount of cash and intend to put it to work over the next few months. As we write this note we have added another two names to our portfolio. We remain committed to our investment process and continue to search for solid investment ideas.

Ayaz Motiwala
Portfolio Manager

Amala
Emerging Asia Fund

Fund Performance

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2016	**NAV**	96.25	93.76	97.63	100.83	99.22	102.13							3.5%
	% Chg.	-2.4%	-2.6%	4.1%	3.3%	-1.6%	2.9%							
2015	**NAV**						100.00	99.71	98.11	97.58	98.49	97.74	98.63	-1.4%
	% Chg.							-0.3%	-1.6%	-0.5%	0.9%	-0.8%	0.9%	

Cumulative return since 07 July 15 2.1%

Country Exposure		Sector Exposure	
India	54%	Consumer	55%
Indonesia	28%	Financials	10%
China	8%	Communication	11%
Thailand	0%	Materials	10%
Philippines	5%	Health Care	8%
Malaysia	6%	Technology	6%
Total	**100%**	**Total**	**100%**