Amala

Emerging Asia Fund

Information Sheet **1 st 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

LAUNCH DATE

7 th 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 :

Mininmum initial investment US$ 100,000

Subsequent investment US$ 50,000

Notice :

Subscriptions: 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 ended the quarter with net decline of 1%. We have achieved positive gross equity returns(before fees and expenses) of 1.6% since inception, a level very similar to end December 2015. Our investments in Indonesia and Philippines have gained whereas we are losing some money in India and Hong Kong/China positions.

The quarter ended March 2016 was very volatile. Stock markets across Asia and the world were down double digits within the first fortnight of January. The nervousness continued till the middle of February by which time key Asian market indices were down more than 15%. From those levels, the market have moved one way to end marginally positive by the end of March. Investors at large suddenly seem to brush aside the same major concerns such as lower economic growth and high debt levels in China, continued price declines in the commodity complex including crude oil, US interest rates amongst others which were earlier weighting down the markets.

Our quest to search for solid businesses which are well positioned to tide over some of the above mentioned difficulties 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.

Philosophy and frame work in action

Our investment philosophy is to own high quality businesses run by ethical and competent owner / managers at appropriate prices. To us a constant work in progress is this investment framework and how it has been evolving over time. There is judgement and reflection at play on a daily basis culminating into constant refinement in the long term. At the same time the core process is not up for compromise whether its in the character of the business or the people involved in running it. We hope to have the continued discipline to avoid participating in investment ideas with ordinary risk-reward that don't fit into our framework. This clearly could have implication in terms of shorter term fund performance. It possibly means we would take a bit longer to get appropriately invested. For the naysayer a higher cash level imply a big timing call. However for us, its the manifestation of our resolve to stay the course. We hope that over time our patience pays off. We have your mandate to be able to pursue this journey over the long term.

Portfolio

This was another active quarter for the fund. We added three new positions and while scaling up existing holdings. The portfolio still remains a work in progress but we think we have already lined up the core. We still have substantial amount of cash waiting to be appropriately deployed across investment worthy ideas.

Highlighting a couple of names from our current portfolio. In the Philippines we own a leading air conditioning and refrigeration company which has a presence across segments viz. consumer, commercial and industrial. It has an entrenched market position with leading brands across different price points. This places the company favourably for potential growth prospects. It also has joint venture agreements with a Carrier, USA(part of United Technologies) and Midea, China to manufacture and market their brands. In addition the company also has a joint venture with Otis to maintain and service elevators and escalators. The company has efficient and modern manufacturing facilities with nation wide installation and service capability which is supported by its logistics network and dedicated part stores. Its business scale gives it a big operating cost efficiency over competition. Over the last five years to 2015 the company has annualised revenue growth at 14% while compounding profits at nearly 18%. Capital productivity has been solid with ROCE's in the mid 20's. We got an opportunity to own this name as the company underachieved on expected growth in the recent few quarters. Our investment in this high quality business is premised on the hope that the company gets back to the growth path over the next 12-18 months. Risks could be inordinate delays particularly on the institutional side of the business which could impact margins and profitability.

We own a credit rating agency in India. To us this is a unique opportunity the Indian stock market presents to own such a franchise. Currently the core business revolves around bond and bank loan rating. As per a paper by the Reserve Bank of India outstanding domestic debt securities account for 33% of GDP. The share of financial institutions and corporates account for only 5%. The corporate share is a miniscule 1.1%. China, a newly developed bond market is at 25% and 9% while it is 89% and 22% in the US which is probably the most sophisticated and developed market. Clearly India is an under penetrated market and has been for last two decades. There are continuing challenges on liquidity, trading volumes, depth and width of participation etc. Indian State owned banks currently have an estimated 70% share of outstanding loans. These institutions are currently quite challenged working to clean up balance sheets while limiting fresh lending. Thus we feel there is an opportunity for bond market to become larger and more main stream source of fund raising. This in itself is a large opportunity and a quality way to participate in the new growth cycle in India. Additionally with the current market being very plain vanilla there is room for sophistication involving different borrower/ lender profile and varied term structures. Being a consulting type business, the economics of the credit rating business are very good. Again here we are paying up for quality with the expectation that this company delivers on its three years earnings outlook. The demand for such services is derived from capital raising plans(and thus new projects and expansions) means that there is a risk of delays and postponements. This is a risk currently in owning this business.

During the quarter we met our existing and a few prospective investors in Singapore and shared thoughts on the fund progress thus far. We also visited India, met with some of our portfolio companies and attended a couple few broker conferences. We liked a few new names and hope to add these to our portfolio during the course of the next quarter.

Outlook

We intend to put more money to work over the next few months. As we write this note we have added another two names to our portfolio. We remain optimistic to be able to put our capital to its best use. Our confidence stems from our current cash position and the recent market movements.

Ayaz Motiwala
Portfolio Manager

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Fund Performance

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2016	**NAV**	96.25	93.76	97.63										**-1.0%**
	% Chg.	**-2.4%**	**-2.6%**	**4.1%**										
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 **-2.4%**

Country Exposure		Sector Exposure	
India	51%	Consumer	48%
Indonesia	32%	Financials	13%
China	10%	Communication	16%
Thailand	0%	Materials	10%
Philippines	6%	Health Care	10%
Malaysia	0%	Technology	4%
Total	**100%**	**Total**	**100%**

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