Amala

Emerging Asia Fund

Information Sheet **3rd 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,

The third quarter of 2016 has been quite rewarding with a 3% gain in the fund NAV. September turned out to be a down month in an otherwise gainful quarter after markets across Asia turned cautious. For this calendar year we are now up 6.4% and the gain since inception is 5%. Our investments in Indonesia, India, Philippines and Malaysia have all contributed to the overall performance.

During this quarter we again added a few new names to our fund portfolio and also appropriately bulked up stakes in some existing holdings. Additional subscriptions during the quarter has meant we still have a decent amount of cash waiting to be appropriately deployed across investment worthy ideas.

We have a portfolio of high quality companies that have businesses that are well positioned to create long-term value. Our portfolio creation and maintenance journey continues.

The Price for Quality Debate

As stated in our earlier notes we would like to own quality businesses by paying a sensible price. The contours of our internal debate revolve around revenue growth, profit margins and capital productivity of a particular business. Implicit in these assumptions is our call on the owner/managers of the business staying the course. The toughest part is to assess if we are paying an appropriate price to purchase those profit streams.

We also accept that on a normalized basis it is difficult to find high quality businesses at statistically attractive valuations. This means we are making judgmental allowances to accommodate stocks in our few distinct buckets. Thus the challenge is always going to be our assessment of quality and the price. What is a reasonable period of time for a business to show its true character? Our failure to appraise this correctly would result in buying a lower quality business. Any significant variance from estimated profitable growth could thus result in a prospect of capital erosion. This risk in the back drop of an estimated 2x lift in the valuation multiple of quality companies in Asia is even more potent.

Highlighting a couple of names from our current portfolio

We own shares in a textile business. This company derives more than 75% of its revenues selling blended fabrics primarily in non-metro locations. The balance comes from ready-made apparel sold under a few brands.

The company has a market leading position built on its strong brand equity and gained market share in a highly fragmented business. Over the last 10 years' revenues and profits have grown at 15% and 20% respectively while profitability has been maintained in 18-20% range. To put that in perspective revenues have gone a little over 5x, net profits nearly 7x while total capital employed has gone up 3.5x. We like the ability of the company to outsource non critical processes in the last few years giving it distinct advantage and resulting in efficient use of capital. We also like the fact that a bulk of the growth is volume driven and substantially ahead of the market confirming the market share gain statistic. The entire growth in the last decade has been internally funded.

We have owned this company for nearly a year and have added to our holdings during this period. On the type of high quality businesses, we would like to be involved in, this to us fits into the relatively lower liquidity bucket due to high sponsor ownership and thus currently limited investor interest. Our patient capital lets us participate in the growth journey of such companies. The expectation here is that the business continues to compound revenues and profits at a decent pace resulting in a sizeable business which is of interest to market participants at large. There can be additional positives on both revenue and profitability front if the company is able to grow its apparel business. Pricing power and thus profitability would be seriously tested if we have a sharp increase input costs.

We have recently bought a company which sells branded packaged coffee and also runs cafés. This company has been quite challenged in its business over the last 3-4 years. Revenues have remained flat while profit after tax is up a meagre 4% over this period. The company has gone through a change in revenue mix. Earlier café operations accounted for 75% of revenues while the packaged coffee sales accounted for the rest. At the end of March 2016 café business accounted for only 50% of revenues. We note the continued revenue decline in the café business while the packaged coffee business has grown rapidly. This altered the revenue mix, with the packaged coffee business neutralizing the entire revenue decline of the café business. As a result, the company showed flat revenues during this tough period. In addition, with a superior margin profile we estimate the packaged coffee business now contributes nearly 75% to the bottom line.

We have witnessed this transition from the sidelines waiting for hard evidence of some form of stability in the café business. We feel the management seems to have come to grips with the situation on hand. They have undertaken a numbers of efficiency and cost control measures to reset the business at a lower revenue base. The past couple of quarters seem to bear out as evidence of efforts of the management to be paying off gradually. In addition, the company plans to grow the store count slowly and in a very capital efficient manner with a new format. The packaged coffee business which had a smaller challenge with its international distribution has sorted it and is expected to be the growth driver for the company.

Investment opinion on this company has been weighted down in the last few years. For us this fits into the context of a good business in a state of transition. We like this net cash company which is well positioned to fund future growth plans through internal accruals and cash on hand. As the packaged coffee business becomes a larger proportion of revenues we expect the company to get back on its growth path. We also expect an improvement in profitability due to the inherently higher margin profile and capital productivity of this business. We hope our judgement on hard evidence of café operations having stabilized plays out as we expect. This would be a key moniterable in this investment case.

During the quarter we visited India and met a few companies. We also did a marketing trip to the UK and met up with a few prospective investors. At the same time we were able to add a few new investors to our fund.

Outlook

We now have over 20 names in the portfolio. We currently still have a good amount of cash and intend to put it to work over the next few months. We remain committed to our investment process and continue to search for solid investment ideas.

Ayaz Motiwala
Portfolio Manager

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Fund Performance

Year		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	104.00	105.89	104.99				6.4%
	% Chg.	-2.4%	-2.6%	4.1%	3.3%	-1.6%	2.9%	1.8%	1.8%	-0.8%				
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 5.0%

Country Exposure		Sector Exposure	
India	54%	Consumer	52%
Indonesia	28%	Communication	14%
China	8%	Financials	9%
Thailand	0%	Materials	8%
Philippines	4%	Health Care	7%
Malaysia	6%	Technology	6%
		Industrials	3%
Total	**100%**	**Total**	**100%**