Amala

Emerging Asia Fund

Information Sheet **3rd Quarter 2017**

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 2017 was a challenging one for the fund making a return of -3%. The small gain of July was more than offset by the portfolio performance in August and September which also included a small foreign exchange impact. For the current calendar year the fund is up 10.4%.

Our Indian investments continued the path of positive performance and gained further during this quarter. Investments in Malaysia and the Philippines held onto their gains. Indonesian and Hong Kong holdings on aggregate are currently not contributing to our performance while these businesses continue to track well fundamentally.

Our fund added a new investor to its shareholder list. In addition, we are happy to report that a few existing investors added to their holdings in the fund. Some of the additional capital thus raised has been invested in our existing holdings. We booked gains in 3 of our Indian holdings our first since the fund inception.

Highlighting a couple of holdings from our current portfolio

We own a multi finance company in Indonesia which was incorporated as a joint venture with a US leasing company 35 years ago. Its core business is to finance largely pre-owned 4 wheelers deployed primarily for commercial use. It is amongst the largest multi finance companies with over 300 branches and sub branches across Indonesia.

This company has transformed itself over the last decade. It has improved each aspect of its business viz. source and cost of funds, business mix, channel mix, operating costs while expanding its branch network. Till 2006 its business was largely funded through shareholders equity and wholesale bank lending. It made its first bond issuance in 2007 and this source now accounts for 33% of its funding mix. Over time it has managed to achieve 2 rating upgrades and resultant cost saving of 150-200 bps. The other very significant achievement has been to grow the % share of its self-originated business (referred as non-dealer financing) from ~20% to ~50% in the last decade. This to our mind has been very transformational and vastly improved its business quality.

Over the last 10 years the company has grown its loan book at 23% CAGR while the industry grew at 15%. The growth has been well calibrated with solid underwriting keeping NPL's in the ~1% range and effective credit costs of 2-2.5%/year. With ROA's range of 6-7% and leverage factor of only 2x (scarred from the Asian financial crisis) the company has achieved 16-18% ROE.

We got the opportunity to own this business with good fundamentals at an attractive 1.3x book, 5% dividend yield as market participants were treating all financial lenders similarly in the backdrop of a decline in Industry loan growth and a rise in NPL's. The relatively lower trading liquidity and the small size of its current business added to gap between price and value. Our optimism on this company is premised on the long-term financing growth opportunity in Indonesia, its relatively small market share of 3.3% and the execution track record of the core management team. With its conservative leverage position and existing profitability, we feel the company should grow its business at 18-20% without needing to raise additional shareholder equity.

Recently a group of shareholders (including a leading US based private equity fund) who own 45% of the company announced their intention to sell their stake. We will monitor this development closely.

A few months back we bought our first IT services company in India. This company started life as an internal IT services division of the largest Engineering, Electrical and Construction conglomerate. It was spun off as a separate company which also undertook external third-party business. In the formative years the company built its external business highlighting the strength of its parentage and its expertise in verticals such as manufacturing. Over time it built capabilities in other verticals which has resulted in growth, reduced client concentration and risks to its business model. This company went public in 2016 having been in business for more than 25 years.

Over the last 25-30 years Indian IT service companies have successfully built a sizeable business benefitting from a shift to outsource such services. They capitalized disproportionately on this trend gaining market share by offering high quality competitively priced services offshore which were enabled by the large and growing pool of technical manpower in India. The large companies managed to grow revenues and profits rapidly (mid 1990 to 2010) with very high capital productivity and created huge wealth for shareholders. However, the recent 3-4 years have been challenging for these businesses with much slower growth. With the rapid improvement in machine learning, automation and coding tools service delivery in its current form seems to be changing. In addition, client technology budgets are being directed towards projects/areas (such as digital transformation) where the Indian expertise is yet to be proven.

It is in this challenging back drop we own the 6 th largest IT services company with nearly US $ 1 bn of revenues, 40% plus ROE at 13x current year earnings. We like the fact that this company has been one amongst very few smaller sized Indian IT services companies which have successfully transitioned to nearly a billion-dollar annual revenue run rate. Having done this organically adds further credence to its capabilities. Its current revenue profile is quite similar to a traditional Indian IT majors while it attempts to position itself for IT Services 2.0. The company is confident of winning new business being relatively nimbler than its larger peers. We appreciate that already 25% of its revenues come from digital & cloud services which could be growth engines of the future.

As this investment plays out we will watch out for client wins in new and growing areas of business. The current top 5 client concentration is high and clear a risk on growth prospects and profitability in the near term.

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Outlook

We are satisfied with our current portfolio of businesses but there is always room to improve the quality. As mentioned we have taken profits in 3 of our Indian holdings with gains in the 50-150% in short ownership period of about 2 years. We will typically have a low portfolio turnover once we are appropriately invested. However, if stock prices move significantly ahead of fundamentals we are always prepared to take gains.

During the quarter, we visited existing and some new companies in India, Indonesia and Singapore. We have liked a company from our recent visits and would consider adding the same to our portfolio in the coming months. We remain patient and committed to our investment process while continuing to search for solid investment ideas.

We would like to thank each of you for entrusting us with the management of your money.

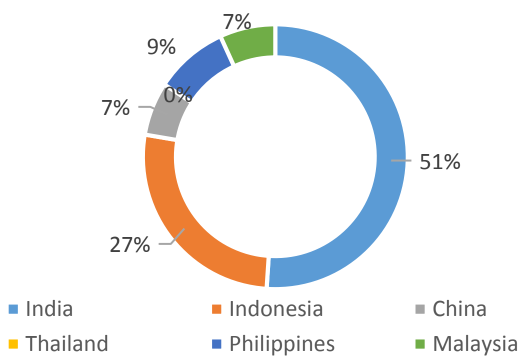
Ayaz Motiwala
Portfolio Manager

Fund Performance

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2017	NAV	100.40	102.88	106.95	110.92	110.61	113.58	114.44	110.69	110.27				10.4%
	% Chg.	0.5%	2.5%	4.0%	3.7%	-0.3%	2.7%	0.8%	-3.3%	-0.4%				
2016	NAV	96.25	93.76	97.63	100.83	99.22	102.13	104.00	105.89	104.99	106.72	100.29	99.86	1.2%
	% Chg.	-2.4%	-2.6%	4.1%	3.3%	-1.6%	2.9%	1.8%	1.8%	-0.8%	1.6%	-6.0%	-0.4%	
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 **10.3%**

Country Exposure



Sector Exposure