Amala

Emerging Asia Fund

Information Sheet **4 th 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

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 :

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 fourth quarter of 2016 was tough and eventful with demonetization of higher denomination notes in India and the US presidential election dominating the headlines. Asian currencies such as Indian Rupee lost 2.6%, Indonesian Rupiah was down 3%, Malaysian Ringgit 6.6%, Philippine Peso 1.6% against the US Dollar during this quarter. The fund lost 4.8% on a net basis.

We ended 2016 with a 1.2% net returns in what can be described as challenging environment. Asian Indices on a price basis including relevant country benchmarks are down in the 12-14% ball park. So while we take solace in not having lost money for our investors and the relative performance we are not happy with the absolute net returns since our start.

Our investments in India and the Philippines have done all the heavy lifting contributing to the positive returns while our positions in Indonesia and Malaysia are losing money largely due to the foreign exchange impact. During this quarter we added to our existing holdings at what we think are attractive prices due to some near term headwinds in the markets and possibly specific to some of these companies. Additional subscriptions towards the end of the quarter have resulted in cash waiting to be appropriately deployed across investment worthy ideas.

The challenge to make US Dollar returns with currency headwinds

Asia has been and continues to be a region which has offered higher economic growth in relation to developed countries over the last few decades. At the end of 2016 the 10 year annualised returns for Jakarta Composite Index(JCI) is 12.7%, its 7.6% on the BSE Sensex, 9.5% for SET in Thailand and 9.7% for the Philippines Composite Index. However the US Dollar returns for some the above indices are significantly lower with the Indonesian Rupiah losing 4.6% and the Indian Rupee losing 4.9% annually against the US Dollar over this period. We are aware of this steady currency depreciation accross Asian countries and base our longer term return expectation factoring in the Foreign exchange impact.

We live in a highly globalised world where most if not all companies are impacted by currency movements. The general expectation is for the the recent US Dollar appreciation to continue possibly at faster pace over the next few years. Our challenge is to own businesses that are able to deliver on our quality parameters of profitability and growth despite these potentially adverse head winds. Our portfolio has a large percentage of companies whose business is geared towards domestic demand. We will continue to be mindful of the currency impact on what are currently perceived to be robust business models. Another important consideration would be to match our investment time horizon and the ability of the company to deliver business results.

Highlighting a couple of holdings from our current portfolio

We own a real estate company in India. This company derives its revenues from a large trade exhibition center and office buildings around this site.

The company has a market leading position in renting space for large scale trade exhibitions and events. It has built this business over the last decade having inherited a large piece of land from its legacy textile machinery business. In addition, the company also constructed office buildings using part of the surplus land. Over the last 10 years revenues and profits have grown at 15% and 22% respectively while profitability has been maintained in high 20's. The company has funded its exhibition and office buildings (estimated US$ 50mn.) entirely through internally generated cash flows. Despite this it currently has no debt and has nearly 65% of its balance sheet in cash. Looking ahead the company has plans to double its current exhibition space to nearly 1 mn. square feet. It is also adding another office building which will more than double its current office space. Land for this expansion is ready and available at the existing site. These projects are being funded through internal accruals.

We have owned this company for some time. We are getting a chance to own this high quality business due to the relatively low stock liquidity possibly due to high sponsor ownership and thus currently limited investor interest. Our longer term investment time horizon lets us participate in the growth journey of such companies. We expect this business to compound revenues and profits at a decent pace considering the visibility on both the above mentioned new projects. Hopefully as it delivers numbers and builds a larger business there could be additional investor interest. Risks for us would be from cost and time over run of the new projects or a significant slowdown in economic activity.

We have bought a leading broadcasting company we own in Indonesia. This company operates two free to air general entertainment channels supported by advertising. The total spend on advertising in the country is estimated to be US$ 12bn with TV accounting for 65%. Digital advertising which has grown rapidly in the last 5 years now accounts for about 8% of the spending. Three networks (including the company with its 2 channels) account for 80% of the rating and revenue share. This company has been able to compound revenues and profits at 17% and 24% respectively over the last 5 years to 2015. In 2011 the company acquired its second channel and has been able to successfully integrate it with its programming and ad-sales infrastructure partly contributing to the above growth. Capital productivity has been top notch including the acquisition which has created lots of value for shareholders.

Investment opinion on this company however has been weighted down in the last few years. Advertising growth both at the industry and company level has slowed down considerably to the 5-7% range. Additionally, the company has lost market share to the leading network as its programming has not been able to connect with viewers. The management is aware of the situation and has been launching a number of new shows to improve ratings. Currently there is limited evidence of this working. Recently the company acquired a majority stake in a leading content producing company whose programs hitherto have been significant contributors of rating at the leading rival network. We are hoping with this decisive move can improve the quality of its programming and drive a significant improvement in viewership and ratings. For us this fits into the context of a high quality business weighted down by correctable issues.

During the quarter we visited companies in Indonesia, Malaysia and Singapore. We reached out to most of our existing investors explaining our position in the backdrop of demonetization in India and the foreign exchange volatility. We also did our first marketing trip to the US and met up with a few prospective investors. We would like to thank each of you for entrusting us with the management of your money.

Outlook

Our portfolio consists of 23-24 solid high quality businesses. We hope that as these businesses deliver on revenues, profits and profitability stock market returns will follow. 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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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	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 **-0.1%**

Country Exposure		Sector Exposure	
India	58%	Consumer	50%
Indonesia	26%	Communication	19%
China	8%	Financials	8%
Thailand	0%	Materials	8%
Philippines	4%	Health Care	6%
Malaysia	5%	Technology	6%
		Industrials	3%
Total	**100%**	**Total**	**100%**

Investments in equity markets are subject to market risk, idiosyncratic risk, liquidity risk, and currency exchange rate risk. The fund may use financial derivative instruments as a part of the investment process. This document does not constitute an offer to sell, or a solicitation of an offer to buy shares in Amala Fund. We will not make such offer or solicitation prior to the delivery of an offering memorandum, the operating agreement or articles of association, a subscription booklet, and other materials relating to the matters herein. Before making an investment decision, we advise potential investors to read these materials carefully and to consult with their tax, legal, and financial advisors. The materials have not been reviewed by the regulatory authority of any jurisdiction. Investment is open only to accredited investors as defined by the relevant legal jurisdiction of residence and/or nationality. We have compiled this information from sources we believe to be reliable, but we cannot guarantee its accuracy. We present our opinions without warranty. Past performance is no guarantee of future results.