Amala

Emerging Asia Fund

Information Sheet — **1st 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 first quarter of 2017 ended on a very positive note. Stock markets across the world including Asia have rallied. Asian currencies too have gained against the US Dollar.

Our fund is up 7.1% which is the best quarterly gain thus far. Businesses we own in Malaysia and Philippines have now started to make a contribution to our overall returns. Our Indian investments still continue to be the major driver of performance. We are happy with our absolute performance and hope to build on this over the years.

During this quarter we added three new names to our portfolio and also increased our stake in a few existing holdings. We received additional subscriptions both at the start and end of the quarter. We have been able to deploy most of the additional capital in above mentioned names. However we have a healthy cash balance waiting to be appropriately deployed across investment worthy ideas.

Investment Process

Our endeavor is to own a high quality business at a fair price. In a normal scenario, it is difficult to find bargains currently its even tougher. Our portfolio has a few businesses where we are paying up for quality. We also own another set of companies which are smaller and yet to be perceived as high quality. This could possibly be due a shorter operating history, lack of investor attention and attendant poor stock liquidity. In our third bucket, we own quality businesses which are transitioning or in a spot of bother. As a part of our investment process, we evaluate such opportunities only if they have demonstrated high ROIC over the recent 3-5 years. We need to judge if the earning power is intact despite issues affecting the company. These could be a decline/lack of growth, operating cost pressures, gestating new business or even a part divesture of the existing business. If we think the issues at hand are fixable in a reasonable time, we get involved.

We would like to evaluate such companies over a few years as they deliver on the expected change. Over time there is enough external feedback to reflect on our judgement. Our best outcome is a company getting back its growth and profitability. However, in the business world most transitions take time and are rarely smooth. In a lot of cases its becomes apparent that issues relating to the product, long term growth and profitability may not improve.

We are using our long dated capital to take advantage of a few opportunities. Currently we estimate 25-30% of our portfolio accounts for such businesses.

Highlighting a couple of holdings from our current portfolio

We own a small auto parts company in India. It makes automotive halogen lamps. In May 2015, its previous private equity fund owners sold 51% stake to another listed auto parts company in India. Post the mandatory offer the listco owns a 62% stake and will merge the acquired company with itself.

We like the business of the eventual listco. This acquisition is an important milestone in its journey towards a longer-term goal of having multiple products, customers and geographies. It has grown from a small cable company to India's largest control cables company in 30 years. In early 2000, sales in India accounted for 99% of revenues with 96% of those were to 2-wheeler companies. After acquiring the lamps company in 2015-16, Indian revenues were at 66% with the rest being export sales in Europe. The 2-wheeler cable business at 40% of revenues, a quarter coming from 4 wheelers and another 32% coming from after markets. In September 2016, it acquired a leading mechanical and electronic control cables company in the USA which caters to outdoor power equipment and non-automotive market. Post this deal, Indian revenues would now be around 50% and a new non-automotive revenue line ~25% has got added to the business. In its recent 15-year journey (with 5 acquisitions across India, Europe and USA) revenues and profits have compounded in the mid 20's while achieving solid 30% plus return on capital. As growth has largely been internally funded the per share growth is in line with profit growth.

We are getting an opportunity to own this high-quality business at an attractive price as investors are divided on the longer-term growth profile of its 2-wheeler cable business and its ability to integrate & drive growth in the international markets. We appreciate the company's effort to add products and new geographies to diversify and grow. Our optimism is premised on the long-term execution track record of the founder and his core management team. The pending merger approval has offered an additional 10-12% discount to the already announced share swap ratio. Since our initial purchase in May 2016 both stocks have moved up by 50% but the discount remains. We have been adding to our existing position.

We have bought a leading office automation company in Indonesia. This company sells printing and digital solutions to enterprise and SME clients. In the recent 4-5 years' corporates in Indonesia have experienced a challenging economic growth environment along with a volatile and depreciating currency. Thus, capital spending has been limited. In this backdrop, our investee company compounded revenues and profits at 10% and 15% respectively. It has grown machines installed at customer sites at annualized rate of 8%. At its core this is a machine/consumable sales company enabled by a top-class service network and infrastructure with manufacturing being outsourced to its international parent in Japan. This business model is very capital productive and results in high ~25-30% returns on capital. Dividend payouts have been more than 60% considering the limited capital needed to drive growth.

We are getting a chance to own this name promoted by a quality Asian business conglomerate due to low stock liquidity, an outcome of the high sponsor ownership. The slower growth in profits over the last few years has resulted in limited investor interest. The company management has been working to broaden the scope of its business. It already offers a host of digital solutions to clients which it hopes will drive future growth. We appreciate the company's ability to grow profits and maintain profitability in a tough operating environment. Additionally, its earns us a 6% dividend yield while we wait for economic recovery and possibly increased capital spending. We also like the optionality of the expanded business model contributing to additional longer term growth. Central challenge to this business would be sharp drop in printing and copying across its business user groups.

In January, we visited Manila and met a set of interesting companies. A recent addition to our portfolio is a media company that we met in our visit to the Philippines. In February, we met up with most of our Indian portfolio companies and a few other interesting names.

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

Outlook

We are happy with the quality of our portfolio and the price we have paid to purchase these businesses. Some of our larger positions in India and Indonesia have yet to contribute meaningfully to portfolio performance. We believe that as businesses deliver over time stock market returns should follow in due course. We remain patient and committed to our investment process while continuing to search for solid investment ideas.

Ayaz Motiwala
Portfolio Manager

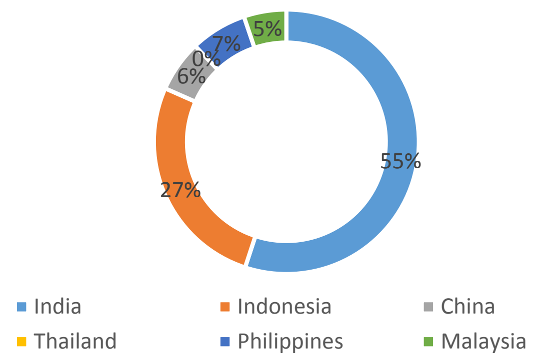
Amala
Emerging Asia Fund

Fund Performance

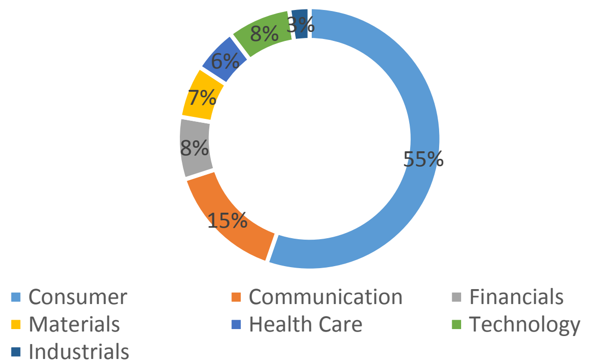
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2017	**NAV**	100.40	102.88	106.95										7.1%
	% Chg.	0.5%	2.5%	4.0%										
2016	**NAV**	96.25	93.76	97.63	100.83	99.22	102.13	104.00	105.89	104.99	106.72	100.29	99.86	1.2%
	% Chg.	-2.4%	-2.6%	4.1%	3.3%	-1.6%	2.9%	1.8%	1.8%	-0.8%	1.6%	-6.0%	-0.4%	
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 6.9%

Country Exposure



Sector Exposure



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