Amala

Emerging Asia Fund

Information Sheet — **2nd 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 second quarter of 2017 ended on a positive note with a return of 6.2%. For the first half of the year, our fund is up 13.7% having achieved positive gains in each month barring May. Our fund completed two years of operations at the end of June.

Our Indian investments gained further in this quarter accounting for a bulk of the gains in the fund thus far. It is positive to note that our other significant investments across Malaysia and the Philippines have also gained. Our holdings in Indonesia and Hong Kong have yet to contribute meaningfully to our performance.

The fund added a couple of new investors to its shareholder list. In addition, it is heartening to note that a quarter of our existing investors added to their holdings in the fund. We have invested most of the additional capital raised while maintaining a decent amount of cash to be appropriately deployed.

Our Portfolio of Investments

We have built our portfolio on the backdrop of low interest rates and rising equity multiples particularly for quality businesses. Currently we own 26 names. On an aggregate basis, expected revenue growth is 12-14% while profits could grow 17-20%.

India currently accounts for 55% while Indonesia accounts for 27%. In recent few quarters we have invested a higher percentage of capital in new investments in Malaysia, Philippines and Hong Kong based on the bottom merit of each company and the potential investment returns.

Highlighting a couple of holdings from our current portfolio

We own a consumer discretionary business which sells vacation club memberships in India. We think this is a very large business opportunity as aspirational Indian consumers are just starting to vacation in large numbers. The company is a dominant leader with 65% market share and a current membership base of over 200,000. A bulk of its properties are in India with its focus on offering vacation opportunities within the country.

The company was incorporated 21 years ago, and has worked hard to sell the concept of a 25-year tenure vacation ownership. Being part of a large industrial conglomerate has helped it overcome typical trust issues consumers have when committing money for such a long tenure.

In its business model, new members are eligible for vacations once they have paid at least 50% of membership fee. This feature permits the company to finance a bulk of its new property build out on an ongoing basis. In addition, members also pay annual fees which funds property maintenance. Over the last 10 years the company has grown revenues and profits at 21-22% CAGR while maintaining a healthy 20% plus ROE.

Operationally it has been challenged in the recent 5-6 years. The Indian economy has witnessed a slowdown and there has been a significant drop in consumer discretionary spending. This impacted the company too and has resulted in slower growth in new members. Revenues grew at around 13% CAGR while profits flat lined having peaked back in 2011. In addition, the company faced a lingering negative perception of lack of room availability for its members. The slowdown in growth presented an opportunity to correct the mismatch. During period FY 2011-17 room inventory grew at 11% CAGR while member base grew at 8.5%. Thus, while vacation ownership sale revenues grew at 9%, annual membership fee and resort income grew at 18% annualized. This resulted in a much more balanced revenue mix with membership sale accounting for only 55% (nearly 70% in FY 2011).

We own this company for more than a year. Our optimism is premised on the long-term growth opportunity and the execution track record of the company thus far. We think the company has corrected its membership base and room inventory to an optimal level and is now focused on driving profitable growth. We think the major challenge in this business would be able to closely match new member acquisitions with expanded room inventory base.

We own a free to air Television broadcaster in The Philippines. Television currently is a very important medium for advertising and marketing communication and accounts for 70% of total ad-spending. GDP growth in the Philippines has averaged 6% plus in the last 7-8 years. It is an attractive market for a host of businesses with low penetration levels (in relation to Asean neighbours) and a young demographic profile. Ad-spend to GDP is currently at 0.13% offering a good long term growth opportunity which would be driven by a combination of emergence of new businesses and increased competition to reach the consumer. During 2000-12 the industry structure was such that only two leading players including our investee company and another player accounted for a bulk of the audiences and nearly 100% of the TV advertising spend. In the last decade, the company grew its revenues at 10% CAGR. However, revenues grew only at 5%. The challenge on growth and profitability came during the period CY 2012-15. In CY 2012 the largest telecom company in the Philippines entered the free to air television broadcasting business. It committed serious capital to this venture. The new entrant bidding for existing artistes and talents resulted in a sharp increase in cost for all three players.

In first couple of years the novelty of new content resulted in the third channel garnering an 8-10% market share largely from the incumbents. As ratings dropped inventory utilization of the existing two large channels dropped too and ad rates were under pressure. In CY 2012 & 13 revenue growth slowed down and profits remained flat. However, in CY 2014 revenue declined 8% and operating income declined nearly 40%. This in hindsight marked the peak competitive pressure point. From here on the latest entrant reduced and stopped investing by the middle of CY 2015.

In the recent next 6-7 quarters both incumbents seem to have sorted out most of the challenges which were presented by the new competitor. They have recouped lost audience share and ratings are back to levels seen in CY 2011. Inventory utilization has improved along with rates while artiste and talent costs are down. Being a higher fixed cost business meant the industry profitability improved significantly as revenues grew and cost remained under control. Elections in CY 2016 too have aided improvement in financial performance.

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We are getting an opportunity to own a company on a path of solid recovery after a challenging 3-4-year period. This business has demonstrated solid resilience with a loyal core audience base in the face of challenge. The medium to long term risk to our thesis would be the emergence of online as a significant alternative medium.

Outlook

We are happy with the quality of our portfolio and the price we have paid to purchase these businesses. Our additions to the portfolio in the last few quarters have yet to contribute meaningfully to performance. We remain hopeful of a positive financial outcome as underlying businesses in the portfolio deliver. 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.

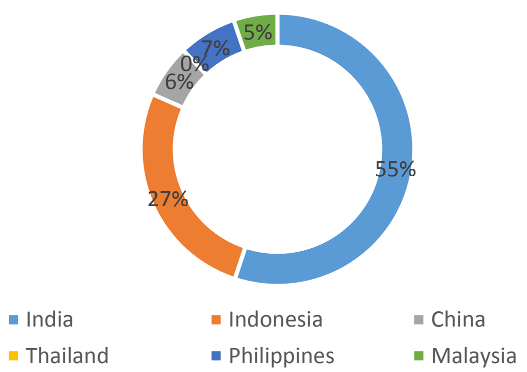
Ayaz Motiwala

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							13.7%
	% Chg.	0.5%	2.5%	4.0%	3.7%	-0.3%	2.7%							
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 13.6%

Country Exposure



Sector Exposure