Amala
Emerging Asia Fund

Quarterly Commentary | **1 st Quarter 2018**

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

Dear Investors,

Our funds' investment performance was almost flat while the NAV was down 0.6% after all fees and expenses during the first quarter of 2018.

This was a very eventful quarter with key developments being the re-introduction of Long Term Capital Gains in India, the noise around global trade tariffs between the US and China, up move in crude oil prices and US interest rates. Against the US Dollar, Indian Rupee declined 2.6%, Indonesian Rupiah was down 1.5% and The Philippine Peso ended with a 4.7% decline. In contrast the Malaysian Ringgit was up 4.5% and the Singapore Dollar was up 1.9%.

In this backdrop, a key development was the positive contribution on aggregate by our Indonesian investments. Indian holdings were down during this period. Small gains in Malaysia and largely a flat performance in rest of the geographies rounded up the quarter. We are encouraged by the improved performance of our Indonesian holdings where businesses continue to improve fundamentally in a challenging business environment.

We took further gains in some of our holdings in India. We have sold bulk of our ownership in a textile company which now trades at more than 3x the valuation multiple we paid on purchase. We have also taken part profits in an IT services company which has doubled having rallied a further 20% during this quarter.

In another development, one of our holdings in Malaysia had a tender offer after the majority shareholders decided to sell their stake to Jacob Douwe Egberts (owned by JAB Holdings). While the underlying packaged coffee and cafe chain business was performing well, we chose to tender our shares facing the prospect of owning a private company. We ended up gaining nearly 85% of which 5% came in from fx appreciation.

Highlighting a couple of portfolio holdings

We own a media company in **India**. This company is a leading aggregator and provider of film content to general entertainment & movie broadcasters in India. It's been in business for more than 30 years having successfully transitioned from renting out video cassettes/compact disc (when the VCR/CD Player were the dominant video consumption modes) to now licensing its rights to broadcasters and digital platforms.

The core business model is to purchase bundled rights (fix tenure/perpetual) of successful Hindi language films typically 3-5 years after its box office release from their original producers. The company bases its purchase decision on key parameters such as the films' theatrical performance, star cast, its television viewer ratings in its first broadcasting cycle, ability to meet a minimum 18-20% IRR threshold. The movies in the library start to earn revenues within 18 months of their purchase on being aired by broadcasters. Films which have done well on the box office and subsequently on broadcast television usually are aired a few more times in a typical 5-year license period.

The company has used this guide post to build up a good library of licensed content over the years. Film content is a key channel driver for broadcasters (general entertainment and film channels) and thus has stable and consistent demand. On the supply size, about 100-120 Hindi films/year are currently being produced by large production houses (50-60%) and small/independents (40-50%). The large production houses choose to deal directly with broadcasters while the company chooses to deal largely with small and independent film producers. Given the typical broadcasting cycle (upto 18-24 months), smaller producers prefer upfront cash flow vs dealing directly with broadcasters. Broadcasters at their end prefer to deal with a few large content aggregators who provide clear title content. The company thus sits in the center of this eco-system providing immediate capital to smaller producers and quality content to broadcasters.

Over the last 7-8 years, while the Indian television industry has grown 13-14% annually, the company has compounded revenues at 18-20% and profits at 22-24% while achieving 18-19% ROE. It has grown the traditional broadcast side of the business at 15%, while its digital business (online and OTT platforms) has grown upwards of 35%. As a result, the fast-growing digital business now accounts for almost a third of its total revenues. The company raised capital and went public in 2014 to rapidly grow its film content library and fund a range of digital growth initiatives.

We have got an opportunity to own this business which could grow earnings at 18-20% and improve profitability with increased contribution from its digital business. We have now owned this business for over 2 years having added to our ownership through the period. Some of the key risks we monitor are small producers directly reaching out to broadcasters, inflation in the cost of film rights and shifting consumer preference to view film content through other media such as digital downloads/streaming.

In **Singapore** we own a company which started offering basic cleaning services and now over time offers large scale integrated waste management and cleaning services. Currently, it has a contract to collect public waste (roads/ housing estates) in Ang Mo Kio-Toa Payoh from The National Environment Agency(NEA). Additionally, it has recently been awarded a 7.5-year contract to manage Pasir Ris-Tampines-Bedok as the NEA consolidates sectors (down to 6 from 9) to increase the households per sector and drive overall scale & efficiency. Presently there are four service providers including the company. The company also has 2 Integrated Public Cleaning(IPC) contracts from the NEA for North-West and South-West zones within Singapore. This entails cleaning roads & pavements, drains, public parks, footbridges etc.

In the last 8 years, the company has compounded revenues at 12% and bottom-line at 20% achieving ROE ~ 22-25%. It has been good at allocating capital having invested SG $ 80 mn (starting at SG $ 20 mn) in capex and achieving this profitability.

The market is presenting us an opportunity to own this quality business at reasonable valuations as the near-term earnings decline primarily due to loss of school cleaning contracts and rising operating cost. We recognize that basic cleaning and facilities management business will always encounter margin pressure in the face of cost push from rising labor costs and pricing challenges from competition. This company has clearly recognized this challenge and worked on maintaining its profitability by investing substantial capital in equipment and related automation. In addition, it has been moving up the value chain taking up more large scale and complex contracts. Presently the company is investing in 2 large projects viz. bio mass plant (SG $ 30 mn) using its own waste collection as the core fuel base and a sludge treatment plant (SG $ 55 mn). These projects will contribute to revenues and profits meaningfully only after a few quarters. Thus, while we wait for cash flows from these projects to come to fruition we earn a dividend yield of nearly 4%.

The company operates a contract driven business, the key risk to monitor would be its ability to win back the same or similar sectors in both its waste collection and IPC businesses. We think setting up downstream projects positions the company more competitively to bid aggressively. Rising labor cost would be an ongoing challenge which the company continues to counter by investing in more integrated equipment resulting in lower labor requirement and higher productivity.

During the quarter, we visited India and met up with our portfolio companies. We also managed to meet a bunch of new and interesting companies.

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Outlook

There are signs that the 9-year-old low global interest rate environment could be changing. Financial assets in particular elevated valuation multiples for businesses could contract over time as investors may now give a much shorter rope for companies to deliver performance in the changing investment climate.

We take note of the above possibilities in the context of our portfolio as we look ahead. We own quality businesses which are well positioned to deliver solid growth and profitability. Our search for solid investment ideas continues while we remain patient and committed to our investment process.

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

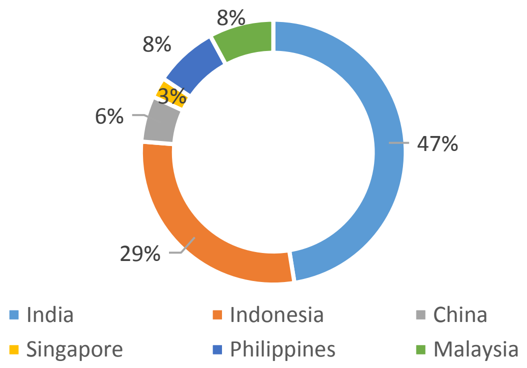
Ayaz Motiwala
Portfolio Manager

Fund Performance

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2018	NAV	121.86	119.89	118.82										-0.6%
	% Chg.	2.0%	-1.6%	-0.9%										
2017	NAV	100.40	102.88	106.95	110.92	110.61	113.58	114.44	110.69	110.27	113.15	114.31	119.52	19.7%
	% Chg.	0.5%	2.5%	4.0%	3.7%	-0.3%	2.7%	0.8%	-3.3%	-0.4%	2.6%	1.0%	4.6%	
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 18.8%

Country Exposure - Relative



Sector Exposure - Relative