

Amala

Emerging Asia Fund

Quarterly Commentary

2nd Quarter 2018

FUND INFORMATION	<p>Dear Investors,</p> <p>The second quarter of 2018 was a tough quarter for our fund with its nav having declined 7.5%. Asian currencies continued their decline through this quarter. Against the US Dollar, Indian Rupee declined 4.8%, Indonesian Rupiah was down 4%, Malaysian Ringgit was down 4.4%, Singapore Dollar down 3.9%, Thai Baht down 5.8% and The Philippine Peso ended with a 2.3% decline.</p> <p>Our Indonesian investments gave back most of the gains made during the first quarter and accounted for a substantial portion of the fund's decline. Our holdings in India, Malaysia and The Philippines too went down but held up much better in relative terms to the overall portfolio decline.</p> <p>We bought an interesting consumer company in Thailand on which we will write a note in a subsequent quarterly letter. We took in small gains selling a part of our holdings in India. A few existing investors added to their holdings in the fund during this quarter.</p> <p>Our fund has now completed three years of operations at the end of June.</p> <p>Highlighting a portfolio holding</p> <p>In India, we own a specialty chemicals and organic intermediates company. Its core business philosophy is based on developing products with clean and green chemistry. They launch products only if they have a unique chemical process which gives its long-term cost advantage and potential to be a leading global player. The company's product development capability is supported by its captive research and industry partnerships with leading Indian and international players in the field of specialty chemistry.</p> <p>In 1991 the company started off by manufacturing Isobutyl Benzene (IBB) which had a substantial demand from Ibuprofen manufacturers who were importing IBB into India. In the first 10 years of existence it rapidly grew the IBB business to become a leading player globally. In 2002 the company decided to reduce the single product risk and developed Acrylamido Methylpropane Sulfonic Acid (ATBS) over a 4-5 years period. In this product too, once the company got the production process and yield parameters right it has over time become the largest player globally accounting for an estimated 50% of this market.</p>
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	



The company set up a 12,000-tonne/year upstream facility in 2010 to manufacture Isobutylene (IB), a key raw material to manufacture ATBS. This investment was made as the company experienced inconsistent raw material supply and a large growing market for the down-stream product viz ATBS. It has expanded IB manufacturing capacity in line with the growth in ATBS which currently stands at 30,000 tonnes/year. Keeping its focus on process capabilities and cost advantage the company has set up a 7,000-tonne/year plant to manufacture HP MTBE a key input to manufacture IB. This cost efficient back end capacity of HP MTBE has enabled the company to introduce certain custom-made products which contributed nearly 10% to the revenues. In addition, the company has lined up a few new projects to execute over 2018-21. These would be additional drivers of growth over its current operating business. All the investments will be within its core operating philosophy of unique clean and green process with a prospect of being a substantial player in its market and meet certain payback thresholds.

Over the last 10 years, the company has compounded revenues at 18% while its operating and net profit have compounded at 25%. It has demonstrated impressive capital allocation ability by achieving an ROE of 26% through this period when its asset base has expanded 11x.

This stock fits into our bucket of businesses where we are paying up for quality and visible medium-term growth prospects. We believe this company could grow earnings at 12-15% annually while maintaining high profitability based on the strength of its current business and future investment plans. We also think some Indian specialty chemical manufacturers have the prospect to grow globally as international customers look for another source of credible supply beyond China. A large and growing home market will be an added competitive advantage to these Indian companies. We bought this business first in October 2015 and sized our investment smaller due to elevated valuations. During our ownership when oil prices declined in 2016 investors sold off this stock (was down nearly 20% from our first purchase) which gave us an opportunity to add. Since this is a global business, key business risk we watch is the prospect of some competitors being able to offer better and cheaper products. The other important monitorable would be the time line on execution of its new investment projects. We understand the company is still working on pilot projects and will only commit large investments once they have complete customer acceptance.

During the quarter, we visited Indonesia, Singapore and India and met up with a most of our investee companies. We also managed to meet a few new companies which have done their IPO in the last 9-12 months.

Outlook

Market participants in Asia continue to exhibit their vulnerabilities in the face of rising US interest rates, potential global trade disruptions caused by strained US China relations. There are early signs of price of money moving up which has opened-up relative investment opportunities for investors. All this to us simply implies that inflated values of financial assets could be coming down over time.

Our fund has passed through a tough three-year period faced with elevated stock valuations to start with along with a host of stock market corrections. We witnessed a sharp correction in July-August 2015 when the Chinese Yuan depreciated. The markets were again sharply down in the first 2 months of 2016 only to end marginally up for the year while going through elevated volatility. India undertook a demonetization exercise in November 2016 which resulted in a sharp drop of stock prices. In 2017 the market surprised us resulting in all around gain in our portfolio of stocks.

We think the markets for our type of quality stocks now seem to be opening a bit and starting to get interesting. Companies continue to create value and in fact the price value proposition is getting more favorable as stock prices decline. Our search for solid investment ideas continues while we remain patient and committed to our investment process.

At this important juncture in our journey we would like to thank each of you for entrusting us with the management of your money. We would encourage our existing investors to commit some more of their capital into in the fund.

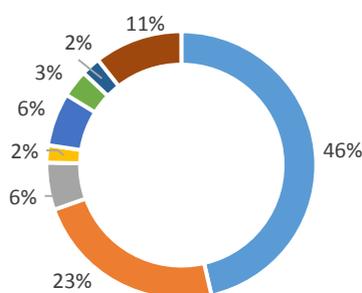
Ayaz Motiwala
Portfolio Manager

Fund Performance

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2018	NAV	121.86	119.89	118.82	118.62	117.07	109.92							
	% Chg.	2.0%	-1.6%	-0.9%	-0.2%	-1.3%	-6.1%							-8.0%
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%	

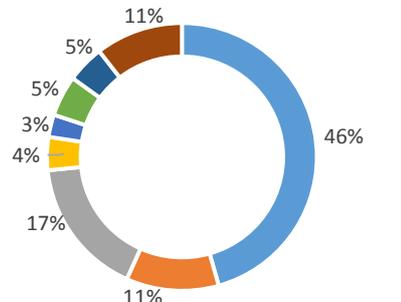
Cumulative return since 07 July 15 **9.9%**

Country Exposure



■ India ■ Indonesia ■ China ■ Singapore
 ■ Philippines ■ Malaysia ■ Thailand ■ Cash

Sector Exposure



■ Consumer ■ Communication ■ Financials
 ■ Health Care ■ Technology
 ■ Industrials ■ Cash

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. © 2018 Amala Capital Management Ltd. All rights reserved.