Amala

Emerging Asia Fund

Quarterly Commentary **3rd 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,

The third quarter of 2018 was another difficult quarter for both our fund and the markets in general. The equity markets were under pressure and in addition most local currencies declined versus the US dollar. Year to date, all major currencies in South Asia declined between 2-13% except for the Thai Baht. Particularly negative for the fund, given our exposure, was the more than 6% decline in the Indian Rupee. Of the 11.5% drop in the fund NAV during this quarter, we estimate nearly 5% is from the decline in local currencies versus the US dollar.

That said, we have seen good-progress in most of the businesses we are invested in. Of the more than 20 companies we own, 15 saw both an increase in revenues and profits over the last few quarters.

In the backdrop of ongoing trade war fears and related weakness in local currencies we expect the markets to gradually return their attention to economic activity in our region, the excellent demographics and the long-term growth prospects.

Thoughts on investment process

Our core investment philosophy is to own high-quality businesses run by honest and competent people. We would like to pay a reasonable price with a primary focus on protecting our capital while at the same time balancing growth and capital productivity. Ideally, we would like to own a portfolio of discovered high quality companies at attractive prices. However, in the past few years such straight forward opportunities have been few and far in between.

In our desire to own quality businesses and pay sensible prices we also own some companies in 2 other distinct buckets. Businesses which have historically been recognized as quality & are currently in a spot of bother and emerging quality businesses which have yet to be recognized as such widely.

We currently have an exposure of 25% in the emerging quality bucket. In this letter we are sharing our thoughts in relation to one such investment.

We own a Guangdong, China based company which has been in the biscuits business for more than 50 years. It's current product range includes traditional breakfast, crisp, sandwich and wafer type biscuits. In 2007 the sponsors bought this company from the provincial government in a divestment programme. They built on the brand strength and launched a few new products to extend its offerings to drive growth. The company raised capital from a leading European PE fund and in mid-2014 it listed on the Hong Kong stock exchange post an IPO. The primary idea of this exercise was to accelerate the ongoing transformation of its business.

Traditional breakfast & crisp biscuits accounted for nearly 100% of sales upto 2010-11. Over the next few years the company successfully launched higher value-added sandwich and wafer biscuits. By 2015 these new products were contributing 26% of revenues and aided the business to grow at 16% CAGR (over those 4 years) despite marginal growth in its core breakfast biscuits business. Gross profits grew even faster at 28% CAGR due to higher margin profile of sandwich and wafer biscuits. Asset turnover further improved and capital productivity was solid with ROCE exceeding 20% through this period.

In October 2015 we got a chance to own this company at 12x earnings possibly due to its smaller market cap of US $ 175 mn and limited listed history. To us the bar to build on the transformation program and drive growth seemed low as the company had to drive distribution expansion having achieved decent market position. Over the last 3 years in a tough consumer environment, the company has compounded revenues at 12% and profits at 14%. It now has 1,100 distributors for its products having grown from 578 (in 2014). Sandwich and wafer biscuits grew at 30% and 25% CAGR respectively (volumes grew at 24% and 20%) while breakfast range did not grow, and crisp biscuits grew at 12%. The sandwich and wafer range now account for 35% of revenues and 37% of gross profits. In contrast, breakfast range now contributes only 29% of revenues and gross profits.

In April 2018 the company acquired an 85% stake in a digestive and sugar free healthier cracker company based in Dongguan. This acquisition accounts for 6-7% of its revenues and adds further width to its product range. The company hopes to leverage its distribution infrastructure to drive growth in this business.

We have been patient investors in this company watching the transformation closely. Thus far we have earned a 6% dividend yield on the stock while current share price is below our purchase price. The stock now trades at 5x operating profit implying an earnings yield of 20% and 8x net earnings. As we reflect on this investment, the company has delivered quite well on its attempt to transform its product portfolio and grow. It now has 2-3 sub categories of biscuits which are growing faster and have a better margin profile. We remain invested and hope that its performance over time gets appreciated by the market. The risk to our investment would an ambitious and large international acquisition.

Outlook

Emerging markets such as India, Indonesia, Philippines will continue to be challenged by the rising crude oil prices and the strengthening US Dollar. The indiscriminate price correction of stocks over the last couple of months has resulted in a good entry point for new investments.

Most businesses we own continue to perform in line with expectation and creating value. With stock prices down and continuing to decline we are finding attractive investments with favorable risk reward. At same time we have an opportunity to rebalance our portfolio and reduce our exposure to investments that have not entirely lived up to our expectations. Our search for solid investment ideas continues while we remain patient and committed to our investment process.

At this juncture in our journey we would like to thank each of you for entrusting us with the management of your money. We would like to encourage our investors to take advantage of the current market correcting by adding to their existing holdings in the fund.

Ayaz Motiwala
Portfolio Manager

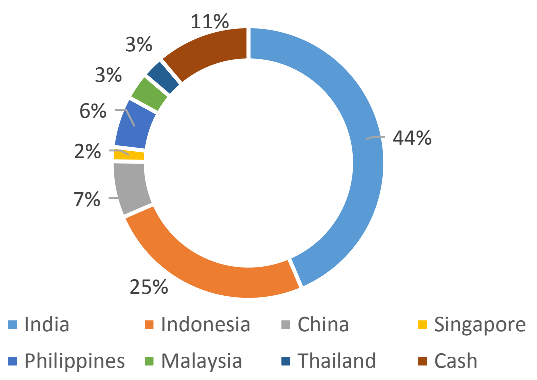
Amala
Emerging Asia Fund

Fund Performance

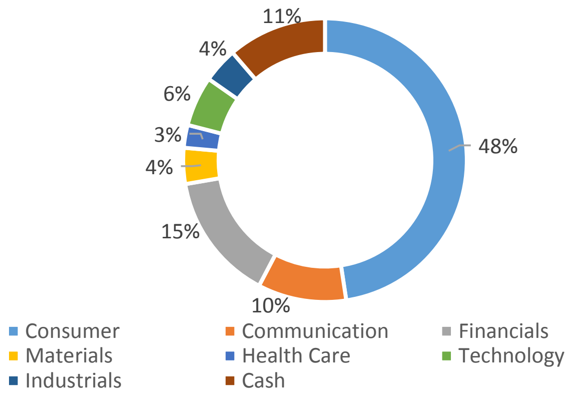
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2018	**NAV**	121.86	119.89	118.82	118.62	117.07	109.92	110.31	106.08	97.30				-18.6%
	% Chg.	2.0%	-1.6%	-0.9%	-0.2%	-1.3%	-6.1%	0.4%	-3.8%	-8.3%				
2017	**NAV**	100.40	102.88	106.95	110.92	110.61	113.58	114.44	110.69	110.27	113.15	114.31	119.52	19.7%
	% 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 -2.7%

Country Exposure



Sector Exposure



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