Amala
Emerging Asia Fund

Quarterly Commentary **4 th Quarter 2019**

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

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 fund ended this quarter down 0.5% net of fees and expenses. During this quarter Asian currencies appreciated against the US dollar with the Thai Baht gaining 3%, while Indonesian Rupiah and the Philippine Peso were up 2.4% each and Malaysian Ringgit gained 2%. The Indian Rupee however was down about 0.7%.

For the year 2019 the fund was down 2.3% while the MSCI India small cap index was down 4.7% and MSCI Indonesia small cap index was down 8.4%.

Our fund subscribed to the IPO of an Indian SOE company which has exclusive rights to railway ticketing and on-board meals. This high-quality business was very attractively valued and not surprisingly very aggressively subscribed. We were allotted only a small quantity resulting in a very small starting position. We have chosen to exit this position at a very good percentage appreciation but a small amount of dollar gains.

Performance of the US Market, Emerging markets and our Portfolio

At the end of 2019, the S&P 500 Index was up over 370% from the lows in March 2009 having compounded at 13% during this period. During the same period, the MSCI Emerging Markets Index has returned 7% on an annualized basis. The comparison is starker when we look at the 21% CAGR in the Nasdaq 100 index. We note that ex the technology stocks, the S&P 500's performance is more in line with the performance of indices in EM. Growth businesses – largely led by large technology, media and communication companies have overwhelmingly out performed value during this decade. The performance in the last 5 years has been driven by a small set of quality growth companies.

We highlight the international performance to contextualize our investment philosophy and what has worked, what has not and our observations.

Our philosophy is to own high quality growing businesses at fair prices. Another investment bucket constitutes a few quality businesses which are currently challenged but could get back to their growth and profitability path. We also attempt to own a few quality businesses which are underappreciated by the markets as they have a shorter operating track record or are smaller in size.

Our stand out performers in the portfolio have largely been the quality businesses where we have paid up on valuations to own those cash flows. Clearly the managers in these companies have executed on the business opportunity even in a tough external environment. They have been able to grow earnings steadily in the last 4-5 years while maintaining or improving the base line profitability. The growth opportunity ahead too looks promising. Our belief is that in the long-term stock returns tend to reflect the business profitability and its growth based on the size of opportunity each of these companies is addressing. Since there is only a small set of such companies it makes sense to hold on to these names some time even at very aggressive valuations as long as they continue to deliver.

Our second bucket is quality businesses which are challenged. This could be on account of a slowing growth in its core business, cost pressure in key raw material, increased competitive intensity etc. The companies are attempting to transform their businesses to compete and get back to their growth path and profitability. We have owned companies in this bucket where we can easily put a justifiable value of at least 80% of their current market cap on existing fundamentals with limited credit being attached to transformation or other growth avenues or getting a cheap optionality on a large addressable opportunity.

We note that transformations have been very challenging and difficult to achieve. Also, these efforts need at least 3-5 years to reposition a business. Some of our investee companies have experienced a pressure on profits and profitability in their core business while investing to grow new engines. In some cases, as the core business starts to decline markets start questioning the long-term viability and start attaching a very low terminal value. The ideal baton passing remains elusive. Competition in current times is multi-faceted and unstructured. So, while our companies are working to solve issues in their traditional market place, their customers and thus their businesses are being disrupted by alternate products and services. In many cases the alternate product and service providers are funded by private equity with different performance measurement metrics and time horizons.

For our 3rd bucket of smaller under researched quality companies the biggest challenge is to have a management bandwidth which enables them to execute on the growth opportunity. We have observed over time only a few such companies are able to achieve the escape velocity to graduate to the next level primarily because of a lack of organisation building. Also, such companies have an additional constraint in the form of a funding engine.

Observations

In the last 5-6 years we note that there has been limited mean reversion in business profits of the smaller set of highly successful companies. At the other of the spectrum stock market valuations of what are considered as traditional value businesses have continued to trend lower as businesses have reported declining profits in aggregate.

We think some of the contributing factors for the above are that the market structure has changed globally including Asian emerging markets with a large and growing quantum of passive money aka ETF's. This along with program trading account for a disportionately large share of traded volumes. Stock liquidity and momentum are key contributing factors to stock performance in a self-reinforcing positive loop. There is ample capital available for such businesses. As stated earlier corporate transformations in these times have a negative loop with declining business performance contributing to low stock price momentum and liquidity. Thus, there is very limited incentive for participants to own such companies, give them capital and a longer rope. The limited and shrinking active money managers continue to chase this smaller set of companies with a dual emotion of greed and fear at play simultaneously.

To conclude an increase in the cost of money could be one contributing factor to the reversal of this seemingly secular share price momentum in quality large cap companies globally. For investors to make a dash for traditional value such businesses will have to produce the earnings post the transformation. Thus, in the interim, we continue to observe, learn and selectively participate in what the markets have to offer.

Travel

In December we travelled to Thailand and India. We revisited companies that looked interesting in our last visit to Thailand. We are evaluating a few businesses closely and at appropriate valuations we hope to increase our allocation to this country.

Our interaction with companies in India including some of our portfolio companies continued to point towards a continuing economic slowdown and a gradual recovery. In this back-drop businesses delivering growth continue to be priced very aggressively. However, in this same market similar growth companies whose results missed expected numbers have been severely beaten down. This makes a search even more challenging.

Outlook

The year 2020 began quite well and markets across the region were up 5-7% by the middle of January. As the news and facts related to the new strand of Corona virus filtered into the markets by the third week stocks have taken a severe beating ending the month of January in the red.

We note that there will be economic implications of this issue on businesses across Asia in particular. There are early signs of a significant challenge on the manufacturing supply chain with China being the biggest factory to the world. However, it is difficult at this stage, to be able to assess the quantum of the damage.

In this backdrop we have a portfolio of solid businesses which are largely domestic businesses most of which have stood the test of time and continue to perform reasonably well. Their profitability is good and they are growing though a bit slower.

We are committed to our investment philosophy of owning high quality businesses. Our process of learning and refinement continues to search for solid investment ideas while remaining patient on the outcomes.

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

Ayaz Motiwala

Portfolio Manager

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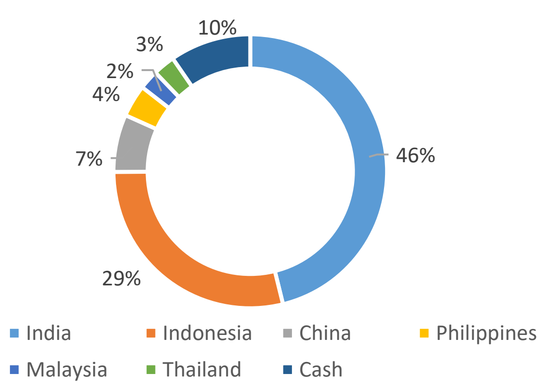
Fund Performance

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2019	**NAV**	99.59	98.95	103.90	102.36	103.45	105.16	102.51	97.93	98.34	98.56	95.07	97.83	-2.3%
	% Chg.	-0.6%	-0.6%	5.0%	-1.5%	1.1%	1.7%	-2.5%	-4.5%	0.4%	0.22%	-3.54%	2.90%	
2018	**NAV**	121.86	119.89	118.82	118.62	117.07	109.92	110.31	106.08	97.30	93.07	99.11	100.18	-16.2%
	% Chg.	2.0%	-1.6%	-0.9%	-0.2%	-1.3%	-6.1%	0.4%	-3.8%	-8.3%	-4.3%	6.5%	1.1%	
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 -2.2%

Country Exposure



Sector Exposure