

Amala

Emerging Asia Fund

Quarterly Commentary

1 st Quarter 2020

<p>FUND INFORMATION</p>	<p>Dear Investors,</p> <p>Our fund ended this quarter down 32% net of fees and expenses. Stock markets across the region were down substantially affected primarily by the spread of the Covid 19 virus into a global pandemic. The Indian and Asean indices for the quarter were down in the 30-35% range.</p> <p>Asian currencies depreciated against the US dollar with the Indian Rupee down 6%, Indonesia Rupiah was down 15%, Thai Baht down 9%, Malaysian Ringgit down 5% while The Philippine Peso was range bound down only 0.1%.</p> <p>During the quarter, the fund fully exited its holdings in a consumer company and a media company in India. In addition, we also reduced our holding in another position in India. We sold to raise cash to deploy in other opportunities which have opened up in the markets during this sell off. We also reduced our holdings in a couple companies in Indonesia and the Philippines. We now have 23 stocks in our portfolio. Towards the end of this quarter we added a new investor.</p> <p>Survival, Resilience and Reset</p> <p>We wrote very briefly in our last quarterly letter about the Corona Virus – Covid 19. At the time, it felt the world had to confront a new type of influenza which was then largely confined to China and parts of North Asia. Now, as we write a quarter later this virus has spread into a global pandemic. We are going through exceptional and unprecedented times. The world at large was massively under-prepared for such a crisis. Most governments have taken steps to lock down entire economies as a measure to counter this virus at a significant economic cost. The difference of this virus break out versus other calamities is the extent of its global spread and thus the unknowability about the time it will end. It is hoped that we soon get to the peak of this virus break out but till such time it is difficult to assess the economic damage.</p> <p>Stock markets across the world have reacted to this crisis and declined sharply from the last week of February into the last week of March. Uncertainty on the duration and the cost of this crisis have clearly unnerved market participants across the world. Selling has been across the board including developed markets like the US, Japan and Europe, as well as global emerging markets.</p> <p>After large scale state interventions and evidence in a number of countries that this health issue can be contained and economic activity on a reduced scale can be resumed, investors are now debating on the possible shapes of the recovery.</p>
<p>FUND OBJECTIVE</p> <p>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.</p>	
<p>LAUNCH DATE</p> <p>7th July 2015</p>	
<p>FUND SET-UP</p> <p>Cayman Islands Regulated Fund</p>	
<p>INVESTMENT MANAGER</p> <p>Nivalis Partners Limited, Hong Kong</p>	
<p>ADMINISTRATOR</p> <p>DBS Bank, Hong Kong</p>	
<p>CUSTODIAN</p> <p>DBS Bank, Hong Kong</p>	
<p>SUBSCRIPTIONS / REDEMPTIONS</p> <p>Monthly :</p> <p>Minimum initial investment USD 100,000</p> <p>Subsequent investment USD 50,000</p> <p>Notice :</p> <p>Subscription: 5 days</p> <p>Redemption: 30 days</p>	
<p>MANAGEMENT FEE</p> <p>1.50%</p>	
<p>PERFORMANCE FEE</p> <p>10% with a high watermark</p>	
<p>FUND ELIGIBILITY</p> <p>Professional Investors</p>	



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We are bottom up investors and our primary focus during this challenging period is to understand the resilience and thus survival prospects of our investee companies. We are currently not debating if prospects of our companies are impacted for one quarter or the whole current financial year. The balance sheet quality, notably net cash position/ low debt is going to be a solid advantage during this period. A rapid cash conversion cycle too will aid corporates with additional liquidity. The fixed cost based and thus operating break-even levels too are very important. We think post this the logical sequence of evaluation for us would be timing of resumption and normalization of business operations. The nature of the business we own will determine the customer demand.

At this juncture only 4 companies have debt on their balance sheet while the rest of the companies are cash positive. Of these, one is a multi-finance company in Indonesia. Another one is a retail led real estate developer which is currently executing its 5 year growth plan. The remaining two are a specialty chemicals company and a regional footwear retailer in India which have some debt on their balance sheets. The lock down across different Asian countries has meant that all businesses we own during last two weeks of March have recorded reduced sales. Our consumer staple companies have been doing somewhat better but were facing challenges both in manufacturing and distribution logistics.

In India part of the factory labor force is migrant, and therefore it will be an added challenge to get back full labor participation. Only when full labor participation has been reestablished, we think the market participants will focus again on growth prospects and profitability. We will also be deliberating the entire value chain from customer demand, terms of trade, raw material scenario, operating scale and costs and profitability. Our assessment on growth would logically follow from there.

Overall more than 90% of our holdings are rock solid companies with a very good financial position. We think these companies will be able to consolidate their position and gain market share once business conditions normalize. All our holdings are currently trading at very low multiples both at an absolute level and in relation to where they have traded in the last 5-10 years. On trailing financial year 2019 earnings or on normalized estimates for 2020 our portfolio holdings are currently trading at 30-50% lower multiples.

During the quarter we have sold a few of our holdings. We exited two media companies in India as we assessed their challenging business prospects and an extended recovery time. We also sold a consumer staples company which has chosen a pricing led strategy to gain market share in these tough market conditions. We doubt about the potential rewards of this strategy. We think our cash can be deployed in better opportunities which the markets are currently presenting.

Travel

During the quarter I visited India to attend a couple investor conferences and meet some of our portfolio companies. My stay has been extended with the lock down announced by the Indian government resulting in a closure of most economic activity including international flights into and out of India. Our colleagues Peter and Philippe working out of our Hong Kong office have been a great support helping us function on a normal basis.

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Outlook

The first quarter of 2020 has clearly been one of the toughest quarters in a very long time. It is currently difficult to put down estimates on financial implications to companies. However, it is already amply clear that discretionary businesses whether consumer or industrial, certain financial businesses and cyclicals will take a long time to recover and normalize.

In this backdrop we have a portfolio of 23 solid and unique businesses primarily in India and Asean countries. We are directing our investments towards businesses which are likely to recover faster from the virus-related economic impact and be able to capitalize on the current situation. We think our consumer staples investments should recover a lot quicker while discretionary businesses could take over two quarters to normalize. As stated earlier, we have already cut a few positions and will exit names to switch into companies which are offering a much better risk reward profile. We are currently looking to add to our existing holding in a tile company in Indonesia. In addition, we are evaluating a few names like a leading cigarette company and an automotive battery manufacturer in India.

We will continue to navigate these markets with our committed investment process in search for solid investment ideas. These are unprecedented times and as usual where there is risk there are opportunities – we will try our very best to make good use of the opportunities ahead to get our fund back on track.

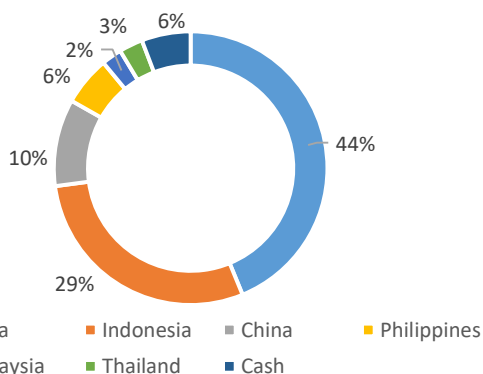
Ayaz Motiwala
Portfolio Manager

Fund Performance

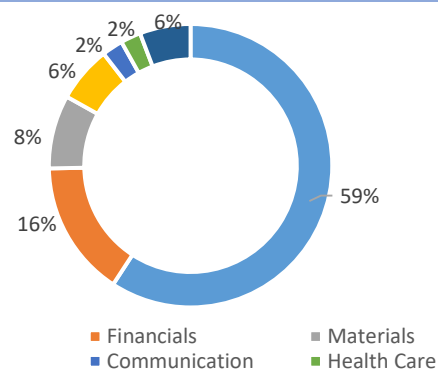
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2020	NAV	100.20	90.15	66.47										
	% Chg.	2.4%	-10.0%	-26.3%										-32.1%
2019	NAV	99.59	98.95	103.90	102.36	103.45	105.16	102.51	97.93	98.34	98.56	95.07	97.83	-2.3%
	% Chg.	-0.6%	-0.6%	5.0%	-1.5%	1.1%	1.7%	-2.5%	-4.5%	0.4%	0.22%	-3.54%	2.90%	
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 -33.5%

Country Exposure



Sector Exposure



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. © 2019 Nivalis Partners Ltd. All rights reserved.