

Amala

Emerging Asia Fund

Quarterly Commentary

4 th Quarter 2020

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.	Dear Investors, Our fund ended this quarter up 20% net of fees and expenses. The sharp recovery in share prices in particular the last quarter meant we are up 5.1% for the year. From the March lows and the then prevalent global situation this is indeed a sharp recovery. We like the market are positively surprised by the pace and honestly did not expect such a rapid recovery.
LAUNCH DATE 7 th July 2015	Stock markets in Asia gained during this period. For instance, the MSCI Asean index was up 21% for the quarter and down 9.3% for the year. MSCI India index was up 20% & 19% for the quarter and the year, respectively. All the Asian currencies gained against the US dollar during this quarter. The Indonesian Rupiah was up 6.3% (down 1.3% in CY 20), Thai Baht up 5.4% (down 0.85%), the Malaysian Ringgit was up 3.1% (up 1.8%), the Philippine Peso was up 0.8% (up 5.1%) and the Indian Rupee up 0.3%(down 2.3%).
FUND SET-UP Cayman Islands Regulated Fund	Our investment activity during this quarter was focused on rebalancing the portfolio in most of our markets. We trimmed a few of our holdings in Indonesia which includes a home improvement retailer, a FMCG company and a tile company . In India too we sold out of small position in a specialty chemical company and took some more gains in the mall operating company.
INVESTMENT MANAGER Nivalis Partners Limited, Hong Kong	Portfolio Check
ADMINISTRATOR DBS Bank, Hong Kong	We continue to reflect on our interactions with our portfolio companies to understand the impact of the pandemic on their business and how they have coped with this crisis.
CUSTODIAN DBS Bank, Hong Kong	At the end of December 20, about 88% (70% in preceding quarter) of our portfolio consists of companies whose share prices are at par or higher than January 20 levels. This list now consists of 20 companies (17) with underlying businesses such as consumer staples, home improvement retailers, IT services, specialty chemicals, media & entertainment.
SUBSCRIPTIONS / REDEMPTIONS Monthly : Minimum initial investment USD 100,000 Subsequent investment USD 50,000 Notice : Subscription: 5 days Redemption: 30 days	Currently 12% of our portfolio consists of companies whose share prices are still 2-25% lower than levels in January 20. In this letter we highlight one such business which is relatively more affected and has yet to fully recover from the pandemic. We however continue to own this business; we share our rationale for owning it at this juncture and its business outlook.
MANAGEMENT FEE 1.50%	
PERFORMANCE FEE 10% with a high watermark	
FUND ELIGIBILITY Professional Investors	



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Portfolio Company

In India we own a company which has a market leading position in renting space for large scale trade exhibitions and events. It has built this business over the last decade having inherited a large piece (68 acres) of surplus land from its legacy textile machinery business. In addition, the company has also created a portfolio of office building assets aggregating to about 2 mn within the same premises.

Over the last 10 years revenues and profits have compounded at 15% and 22% respectively. The company has managed to achieve high profitability (ROE in the 20's) while it has rapidly grown its asset base. The company has funded these investments in its exhibition spaces and office buildings (US\$ 80mn) entirely through internally generated cash flows. Despite these investments, it currently has no debt and has about US \$ 100 mn of cash on its balance sheet (~20% of its current market capitalization).

The Covid-19 pandemic has had a substantial impact on the exhibition business of the company. All events have been cancelled since March 20. For the first half (September 20) the company earned no revenues from this business vs Rs. 800 mn in the prior year. It has made a small loss of Rs. 70 mn in this division. However, its office building portfolio has survived and done well in this tough period with revenues of Rs. 1.4 bn up 62%. This growth has been driven by revenue contribution from its new 1.2 mn sq. feet Office Tower 4 which has now been 80% leased out. The financial earnings on the large cash balance too have helped the company tide over this difficult period.

In response to the covid situation the company on its part has offered extended payment terms to its existing tenants and a longer rent-free period to complete office fit outs for new tenants. We think this is a very good effort on the part of the company to appreciate the difficult operating environment for its clients and foregoing short term profits but ensuring business continuity.

Looking ahead the company has committed to invest Rs. 20-22 bn (US \$ 275-300) over next 4-5 years as a part of its next growth phase. It plans to double its current exhibition space to nearly 1 mn square feet. It also plans to construct another large office building (2 mn sq. ft.) which would double its current office space. Land for this expansion is ready and available at the existing site. These projects are planned to be funded through its current cash balance of US \$ 100 mn and internal accruals over the next few years.

Market's investment opinion on this stock is clearly divided at this juncture. While the stock has rallied 50% from the lows made in March-May 20 it still is 20% from the highs of January 20. We expect this company to do total rental of Rs. 3.5 bn in FY22 assuming the exhibition business contributes only 30-40% of its revenue contribution in FY 20. We expect a PAT of Rs. 2.5 bn. Presently it is trading at a 11% cap rate and a 16x P/E on our one year forward estimates. Interestingly 2 other listed office REITs in India are trading at 7% cap rate or a 50% premium over our investee company. Brookfield plans to list its India office rental asset through a REIT structure at a proposed cap rate range of 8-9%.

We note that there is sufficient margin of safety currently in owning our stock. Put another way, the current Enterprise value implies the market is willing to price only the office rental at an 8% cap rate. Thus, we are not paying for the optionality of exhibition business returning to some sort of normalcy over next 6-12 months and the large expansion plan. Our longer-term investment time horizon lets us participate in the growth journey of such companies. We expect this business to compound revenues and profits at a decent pace considering the visibility on both the above-mentioned new projects. Hopefully as it delivers numbers and builds a larger business there could be additional investor interest. We will balance our optimism watching out for big trends on work from home and evolution of the exhibition business in the post Covid world.

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Outlook

Stock markets globally rallied through the last few quarters resulting in a V shaped recovery regaining most of the lost ground by the end of 2020. The year had begun on a positive note. The new US President has taken office. His early media interactions seem to indicate a strong desire to work on issues such as US relations with international trade partners in particular China, US Commitment to climate change and immigration related issues.

Asia has weathered the Covid 19 health emergency better than other more developed parts of the world thus far. Vaccine approvals are in place and thus a wide and cheap roll out of the same will be a confidence booster to people at large. This will also aid affected businesses to rapidly get back on track to normalcy. Global trade and travel could have an even sharper recovery. We also note there is another wave of Covid-19 infections hitting parts of Europe and parts of Asia and its possible associated impact on businesses.

As we have highlighted in the past Asian emerging markets have had very soft returns in both absolute and relative terms over the last 7-8 years. We think Asian emerging markets could do well over the next 5-7 years. Our optimism is premised on higher earnings-per-share growth, driven by a continued recovery in the larger Asian economies in the context of benign inflation and interest rates.

Our portfolio consists of 22 companies primarily in India and ASEAN countries, most of which have demonstrated solid and resilient operations in the backdrop of a very tough operating environment. The earnings outlook has improved a lot post the recent results, as businesses start operating in a normalized environment. We remain optimistic on the medium to long term prospects.

We will continue to navigate these markets with our committed investment process in search of solid high-quality businesses. Our fund is up ~55% from the lows in March 2020 and we have closed the year slightly higher than January 20. We would like to thank each of you for entrusting us with the management of your money.

Ayaz Motiwala
Portfolio Manager

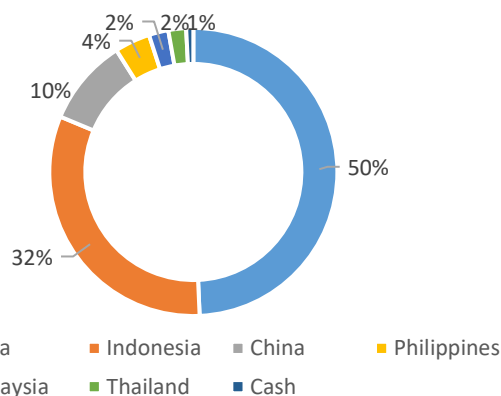
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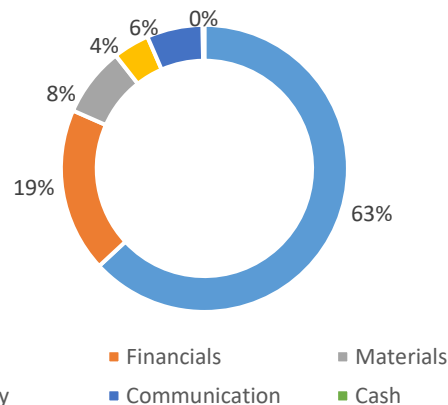
Fund Performance

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	
2020	NAV	100.20	90.15	66.47	72.27	73.49	76.61	79.76	85.32	85.63	85.14	91.72	102.79	5.1%	
	% Chg.	2.4%	-10.0%	-26.3%	8.7%	1.7%	4.2%	4.1%	7.0%	0.4%	-0.6%	7.7%	12.1%		
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	2.8%

Country Exposure



Sector Exposure



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