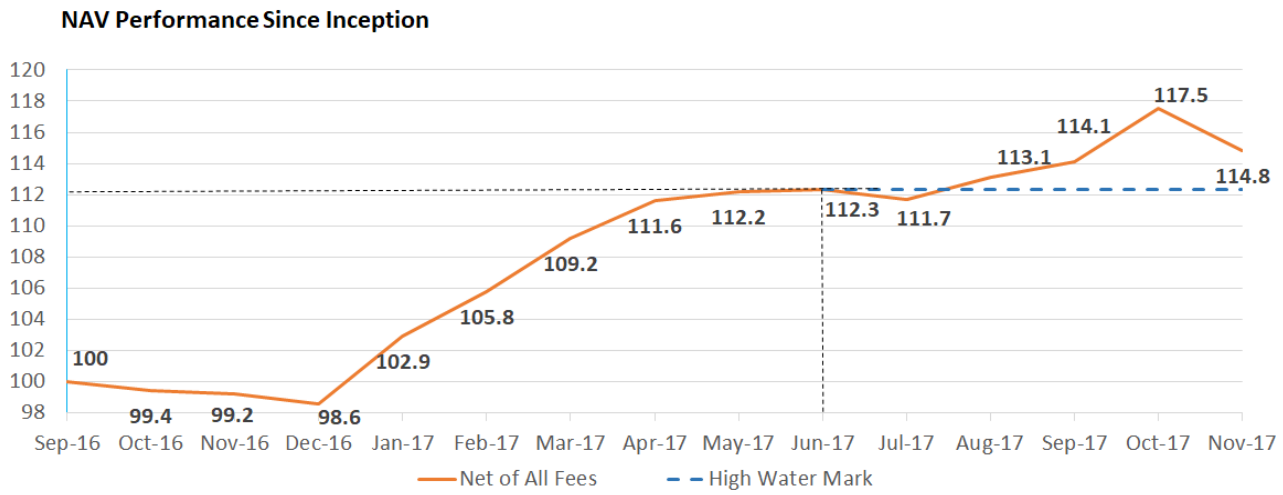
Azure All-Star Fund

November 2017



**High watermark set as 112.3 on 30th June 2017*
Source: Azure Capital & Apex Fund Services

	1 mth	2 mth	6 mth	YTD	1 year	Since Launch
Gross NAV (Before Performance Fee)	-2.8%	+0.8%	+2.8%	+17.1%	+16.4%	+15.5%
Net NAV (Net of All Fees)	-2.3%	+0.6%	+2.3%	+16.4%	+15.7%	+14.8%

- Gross NAV -2.8% in Nov 2017
- Early year end profit takings seen in key markets
- Singapore- added new positions as opportunities arose
- Malaysia portfolio bucked the trend

Singapore

Nowhere to hide!

The second half of November was the most painful 2 weeks this year. The stocks that witnessed the fattest gains in the preceding month were punished the hardest. The Singapore portfolio fell more than 3% over the course of the month, giving back almost half the 7% gains made in October. This was not altogether unexpected though. In last month's newsletter, I said that I still have a sizeable cash hoard as I was waiting for a correction before I deploy substantially. In fact, I raised my cash (and equivalents) level from 33% of AUM in end-October to 36% in end-November.

The biggest culprits were my top positions APAC Realty (-3.8%), Tianjin Zhongxin (-8.7%) and Sing Holdings (-11.3%), which saw very good gains in October. I continue to remain confident in my core positions. I will look to add-on should prices continue to weaken (I have already started to nibble as we speak).

Over the course of the month, I have also bought into 2 new companies – HRnet and Jackspeed.

Fund Allocation

Stocks	64%
Bonds	19%
Cash	17%

Top Holdings

Singapore
- APAC Realty
- Tianjin Zhongxin
- Sing Holdings
- Banyan Tree
- HRnet

Hong Kong
- China Construction Bank
- BYD
- BOC Aviation
- Tongda
- ZTE

Malaysia
- Liihen
- SKP Resources
- Globetronics
- Gabungan AQRS
- POS Malaysia

HRnet

HRnet is the largest recruitment agency in the region, with 20% market share in Singapore and over 10,000 placements at any point in time. It's net margins of 11% are industry-beating, thanks to prudent cost control. The cost structure is kept low as it has 'no receptionists, no secretaries, no drivers'. Founder Peter Sim proudly declares that his secretary is his mobile phone! Recruiters who perform well are made partners and enjoy profit sharing.

HRnet has an enviable cash hoard of S$280m raised from IPO, which will put to good use to grow its global footprint. When the money is fully deployed, we may be looking at a 60% bump in earnings. It recently announced an acquisition in Indonesia, and I am sure more will follow.

Free cash flow of $15-20m is generated every year, and HRnet is committed to dishing out 50% of profits to shareholders. While the yields aren't exactly exciting at 3%, it should rise with more acquisitions in the coming year. Stripping off its cash hoard, it is trading at 11x prospective P/E, which is attractive compared to its global peers' 16x.

Jackspeed

Jackspeed is a supplier of pre-fitted and fitted upholstery to the automotive and aviation sectors. It also produces automotive exterior finished products to be installed on the production line of vehicle manufacturers. Customers include global giants like Ford, Volkswagen, and Delta Airlines. Gross margins are high at ~30% for automotive upholstery and 45% for aviation upholstery.

The company has seen a convincing turnaround over the past 6 years since the current management took over. The last 3 years witnessed steady growth, with earnings rising from S$2.3m in FY15 to S$4.4m in FY17 (YE Feb). It has hit an inflection point and we believe that the company has the capacity to grow 30% in the next 2 years. Annualising its 1HFY18 earnings of $2.7m, the stock is trading at a mere 4x prospective P/E (ex-cash).

Hong Kong

For the past month, HK markets were up 0.4% m-m on average in SGD terms. Based on our observation on the volumes and turnover values as well as feedback from traders we work with, we believe that some fund managers have started to lock in their profits slightly earlier this year due to the strong year-to-date performances. We are down this month as our holdings came under profit taking but we are not overly concerned as these picks are fundamentally strong and some have been inducted in various Hang Seng and MSCI China related indices which could garner more interest from bigger funds in the near future.

More on David's visit to the Daiwa conference last month

Some of his interesting findings include a company which has non-core assets outside of China waiting to be disposed. This overhang has led to the market beating down this stock and left its valuation lower than the average valuation that its peers are now trading at. Stock price is currently near a five-year low and this could be an attractive risk-reward entry point for us.

Another finding is a laggard in terms of stock price performance YTD versus its peers as company has disappointed the market with its earlier timeline to build up its customer base via its own online platform and growth guidance on revenue from value added services from an earlier focus on M&A. Looking at its financials, we believe market participants may not be fully convinced on this revised business model even as 1H17 core earnings growth was robust and cash collection from its customers was in the high 90+% which should alleviate concerns on collectability.

FUND DETAILS

Launch Date
1st October 2016

Base Currency
SGD

Fund Domicile
Singapore

Periodicity of NAV Calculation
Monthly

Management Company
Azure Capital Pte Ltd

Custodian
DBS Bank Ltd & Credit Suisse AG

Fund Auditor
BDO LLP

Fund Administrator
Apex Fund Services (Singapore) Pte. Ltd.

Minimum Investment
SGD$1,000,000

Lockup Period
1 year

Fee Structure
Management 1.75%
Performance 20% above high water mark)

Redemption fee
Year 2 (4%), Year 3 (2%), None thereafter

Investment Objective
Absolute return through active selection of stocks

Geographical Focus
Southeast Asia and North Asia

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Malaysia

The KLCI closed flat at 0.79% M/M (in SGD term) despite stronger-than-expected 3Q17 GDP growth, while MYR strengthened 3.5% on anticipation of Bank Negara OPR hike next year. MSCI Malaysia generally underperformed MSCI APxJ by 2.2%.

Despite the flattish performance in the index, our Malaysia portfolio still registered strong gains of 6.11% in November. Previously we believed that construction and infrastructure sectors should be on an upward trajectory due to the rising foreign direct investments from China, which saw some of our construction stocks continue to do well, i.e. HSS Engineers and Serba Dinamik which registered returns of more than 10% in November. We believe that mid to small construction companies will be the key beneficiaries of the upcoming infrastructure projects than the big names, which proved us right as big construction companies, i.e. Gamuda and Sunway Construction, registered average loss of 5% in November.

We are sanguine about Malaysian equities, which are poised to benefit from an improving economy. A pick-up in private investment, along with higher external demand, and a recovery in domestic demand, are expected to support economic growth. The populist budget tabled by prime minister Najib Razak ahead of elections, focused on supporting domestic consumption and promoting major infrastructure projects. Proposals included the reduction of income taxes and increase in social payments, which is likely to increase disposable income and help businesses that provide goods and services to consumers; while the reaffirmed infrastructure projects should continue to benefit contractors. That said, ongoing adjustments by Malaysians to higher costs of living, amid rising household indebtedness, could weigh on the strength of domestic consumption. We will therefore skew our position towards the consumer sectors.

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