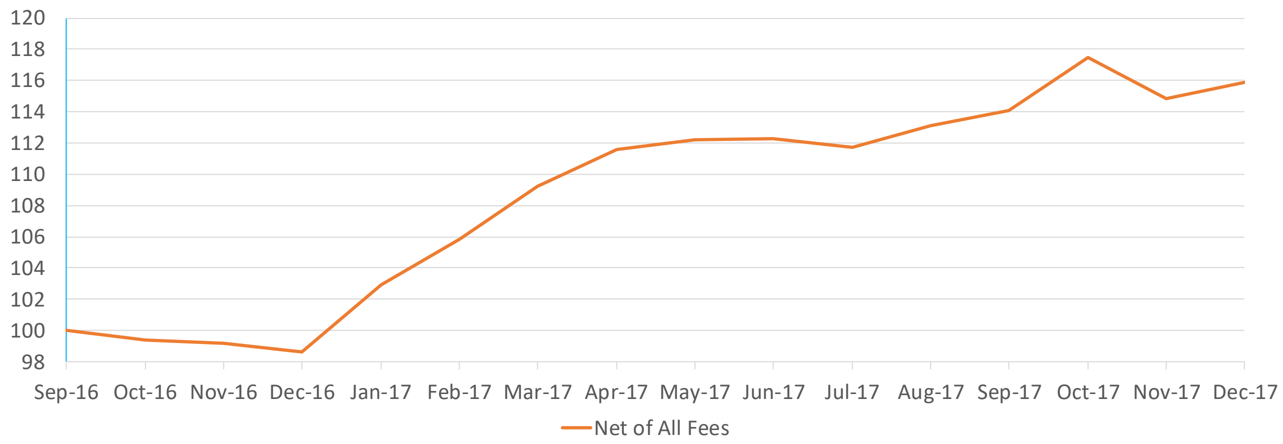
Azure All-Star Fund

December 2017

NAV Performance Since Inception



Source: Azure Capital & Apex Fund Services

	1 mth	3 mth	6 mth	YTD	1 year	Since Launch
Gross NAV (Before Performance Fee)	+1.1%	+1.9%	+3.8%	+19.5%	+19.5%	+17.8%
Net NAV (Net of All Fees)	+0.9%	+1.6%	+3.2%	+17.5%	+17.5%	+15.8%

In a Nutshell

- Gross NAV +1.3%, Net NAV 1.1% in Dec 2017
- Malaysia continued to lead the pack, the second month in a row
- Stock portfolio up 35% after discounting cash drag
- Introducing new opportunities in 2018

The year ended on a positive note, with the portfolio rising over 1%. Our Malaysian portfolio led the charge with 4.2% appreciation, while HK and Singapore was up 2.5% and 2%. The latter 2 markets recovered following a bout of profit-taking in November. Overall, we had a smooth first full year, with the portfolio rising over 17% despite only deploying an average of 55% of AUM. Stripping out the cash drag, the stock portfolio would have risen approximately 35%.

Singapore

We had a good hit rate in 2017, with 80% of our picks pocketing returns. Some of the biggest winners over the past year include:

Fund Allocation

Stocks	67%
Bonds	19%
Cash	14%

Top Holdings

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

Hong Kong
- China Construction Bank
- BYD Company
- Beijing Capital International Airport
- ZTE Corporation
- Q Technology Group

Malaysia
- Serba Dinamik
- SKP Resources
- Supermax Corporation
- JF Technology
- GHL System

Counters	Returns	Holding Period
KSH Holdings	40%	3 months
Avi-tech Electronics	34%	4 months
Hock Lian Seng	34%	2 months
Jadason Enterprises	33%	4 months
APAC Realty*	33%	3 months
Sunpower Group	33%	3 months
Yongnam	33%	3 months
Chip Eng Seng	28%	2 months
Lian Beng	25%	4 months
Fuyu	20%	7 months
Sing Holdings*	20%	7 months

*Still hanging on
Prices as at 29 Dec

Looking at the table above, you may be led to think that I am a flipper. I am just a tad careful, especially when the stock has run hard over a short period of time. Over the past year, our investments have been well-timed. In the first half, I was bullish on manufacturers, which came in with handsome returns (Avi-Tech, Jadason, Fuyu), while in the second half, I turned to properties (APAC Realty, Chip Eng Seng, Lian Beng, Sing Holdings).

Lessons from 2017

While the year has generally been a positive one, there are some lessons I learnt along the way.

1) On hindsight, I was conservative in the past year and invested just over half of the money. I did not invest quick enough and my constant worries of a slowdown in the final quarter didn't actually happen. I have deployed more over the past 2 months and will aim to invest up to 85% of the AUM. I have not turned aggressive overnight though. I will still watch the market closely and should I feel the jitters, I reserve the right to fall short of the '85% invested' target.

2) While I have quite a few big hits in percentage terms, most don't make up more than 2% of AUM. This is largely from a risk management standpoint. When I start accumulating some of these counters, they are fairly illiquid. While I am confident of unlocking value traps (one of our unique selling points), exit risks still remain. However, with some track record behind us, I feel I can be more aggressive and increase my high conviction positions, which relates back to Point (1) above.

3) I thought the USD would appreciate in the second half of 2017 and parked some excess cash in USD bonds. That didn't turn out well, with the USD slipping 2.9% against the SGD between July and December. I should have just stuck to what I know best and invested more in stocks.

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
S$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

Further information
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What to look out for in 2018?

While the global economy looks a lot brighter in 2018, I am fairly cautious following the strong spurt at the start of the New Year. I have positioned myself for 2018 and will be adding to my positions when the market tames.

Property sector still looks strong this year. With the bulk of the en-bloc deals likely to be consummated in the 2nd and 3rd quarter of this year, the 3,000 plus displaced families will be cashed up and looking for new homes. There will likely be a surge in property sales, which will benefit APAC Realty, the second largest agency in town.

I am also bullish in the offshore and marine sector, with oil prices looking likely to firm up this year. I have snapped up some Sembcorp Marine on the large cap front. Over in the small caps, Azure All-Star is one of the parties involved in the deal to revive Marco Polo Marine, which will be relisting next month (February). CEO Sean Lee has worked hard over the past year to club together some renowned entrepreneurs to inject S$60m into the ailing operations. The deck has been cleared with little debt remaining. This will allow Marco Polo to compete very effectively against its peers and ride on the upturn.

Speaking of upturns, the cheery economic outlook for regional economies should bode well for hoteliers. I see some brokers promoting hospitality REITs, but my preferred picks are hotel operators like Amara and Banyan Tree.

Who says Singapore market is boring? We may lack liquidity, but we definitely do not fall short of investment opportunities. Not trying to sound like a broken recorder, but I think Singapore is a treasure trove and I plan to uncover more gems in 2018.

Hong Kong

2017 was a very good year for the Hong Kong stock market as it posted strong gains and was among the top performing markets. The rise in 2017 could be attributed to: i) relatively attractive valuations, ii) strong economic recovery in the developed economies, iii) strong net inflows from the Shanghai and Shenzhen stock connect programmes, iv) While the Hang Seng Index shot up, half of the roughly 2,100 stocks in Hong Kong fell with the magnitude averaging 25%. Sizeable contributions from market darlings such as Tencent, Ping An Insurance, AAC Technology, Geely Automobile and HSBC Bank etc helped propel the index.

China’s economy has performed better than market expectations since the beginning of 2017. Firstly, the property markets in lower-tier cities have remained relatively strong, while auto sales have only seen a mild slowdown due to a higher base the year before. Supply-side reforms continue to aid the industrials’ recovery operationally and financially. In addition, the economic restructuring has witnessed rapid growth in some high-tech and service sectors, which have been invaluable contributors to stable economic growth. Looking ahead, we believe China’s economy should maintain relatively stable growth with some mild slowdown in 2018. But this should not be a negative surprise given that it has been well communicated to the market. Policymakers are targeting a smooth policy shift and orderly gradual deleveraging in the financial system, which are unlikely to result in any systemic crisis in China’s economy and financial system.

The earnings growth of Chinese-listed companies will extend into 2018. According to Bloomberg consensus, the earnings forecasts for HSI- and HSCEI-listed companies suggest growth of 8.9% y-y and 9.9% y-y respectively in 2018, following the expected increases of 22.5% y-y and 9.2% y-y in 2017. The market activities in 2018 will also be spurred on by increased southbound trading volume via mainland-HK stock links and will be a key driver for the potential re-rating of the HK market.

Picks which have done well for us in 2017 include:

Chinasoft International

Company is a leading IT service provider in China with multi-sector, cross-market, and diversified experiences in IT services. Client base includes government bodies, manufacturing, financial institutions (banking and insurance), public services, telecommunications, high-tech and other industries. It can provide common as well as tailored solutions to specific industries. It counts Huawei and Microsoft among its shareholders. Company is currently expanding into cloud computing with Huawei as its key partner. We see greater scope for China to adopt cloud computing in the future and company will be one of the key beneficiaries. Trading at 16x FY18 PE, we see continued re rating on the cards in the mid to long term.

JNBY Design

Company is a leading designer brand fashion house in China, which has one of the largest market share China's designer brand fashion industry. The group designs, promotes and sells contemporary apparel, footwear and accessories for women, men, children, and teenagers under five brands with each targeting a distinct customer segment and having a uniquely defined design identity based on the Group's universal brand philosophy – "Just Naturally Be Yourself". The group's products target middle-and upper-income customers who seek to express their individuality through fashionable clothing, its broad range of product offering and brand portfolio create a lifestyle ecosystem that addresses its customers' needs at different stages of their lives, which in turn building a large and loyal customer base. It trades at 9.9x FY18 PE with a dividend yield of 7.4%.

Peeking into 2018

One of our favourite themes in 2018 is consumption upgrade. Based on our own checks at the FMCG space, we note a reaccelerating store opening from 2H17 along with price hikes since 3Q17. The decision to raise prices rather than absorbing costs internally on some of the counters we track suggests firmer volume demand. Consumption upgrading continues to be the secular trend given the growth in the middle-income class estimated to be 300m population in 2017. We see selected automobile manufacturers and dealers, textile manufactures and education providers benefitting from this.

Other themes to keep an eye out for will be high end manufacturing like semiconductors and display module panels etc, environment protection and financials counters that we feel are still under owned by foreign investors even as they have gained tractions in 2017. We also feel strongly on names leveraged on supply-side structural reforms, SOE reforms and certain counters which will benefit from inclusion in the stock connect this year.

Malaysia

Our Malaysian portfolio continued to register positive return in December, with the total gain of 4.15%.

We believe that Malaysian equities should remain buoyed by domestic demand into the new year, as the Government continues to lend support to civil servants and provide subsidies to the general populace, which accounts for more than half the economy. The synchronised upturn in economies globally should also help exports, as should the relatively competitive ringgit.

However, growth momentum could be weighed down by a combination of factors including a potentially tighter monetary policy, lower foreign direct investments due to the central bank's review of its approach to attracting such investments, the bid by regulators to increase tax collection through a large-scale audit on companies, the implementation of a new financial-reporting standard in 2018 adding complexity to existing systems and processes, and an oversupply in the property market.

On the whole, the long term prospects of Malaysian equities remain comparatively inviting. Against dynamic financial markets, we are anchored by our investment approach: a bottom-up analysis for fundamental merits, sustainable business models, good governance and attractive valuations.

In December, we took profits from Penta Master, which gave us a decent return of 34% in 2 months. In addition, we introduced Wah Seong, a leading pipe-coating company for oil and gas, given its decent valuation, upbeat margin expansion for the project in Nors Stream 2, coupled with recovery in oil price. We also introduced Padini Holdings to our portfolio as we believe that the 2% cut in personal tax will alleviate private consumption in 2018, while Padini's brands are targeting mid to lower income earners in Malaysia.

TERENCE WONG