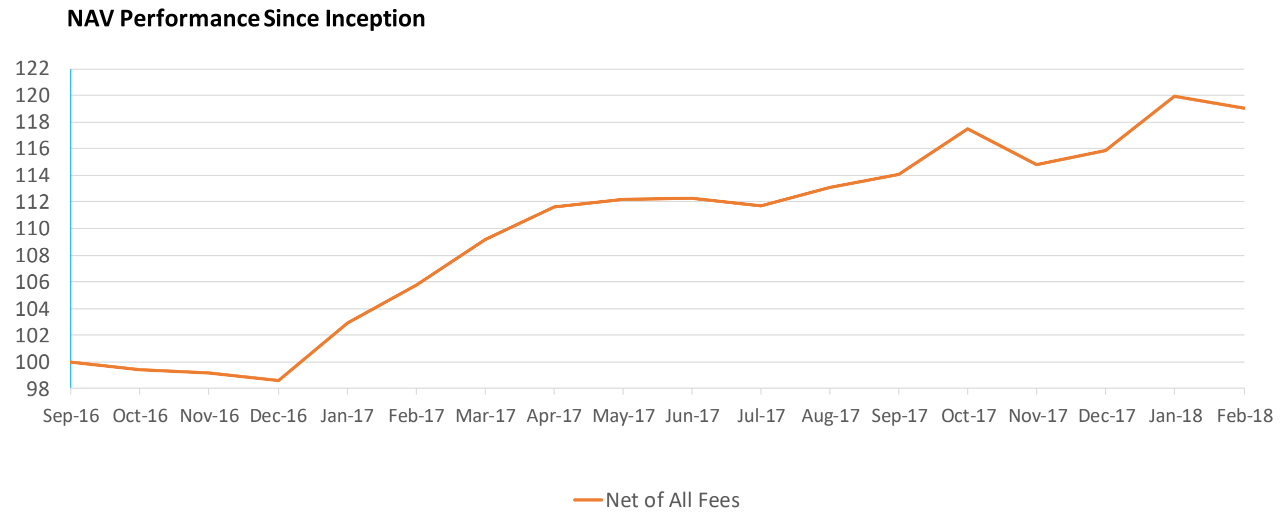
Azure All-Star Fund

February 2018



Source: Azure Capital & Apex Fund Services

	1 mth	3 mth	6 mth	YTD	1 year	Since Launch
Gross NAV (Before Performance Fee)	-1.0%	+4.5%	+6.5%	+3.3%	+12.6%	+20.7%
Net NAV (Net of All Fees)	-0.8%	+3.6%	+5.2%	+2.7%	+12.5%	+19.0%

In a Nutshell

- Gross NAV -1.0%, Net NAV -0.8% in Feb 2018
- Profit taking in Singapore and HK portfolios; Malaysia flat
- Started our foray into the Indonesian market and into the global technology space

Singapore

The Singapore market gave back some returns following a very strong January, with Net NAV coming off by 0.8%. The month of Feb started off with a bang with the re-listing of Marco Polo Marine. However, the market fizzled out after Chinese New Year. Some of our biggest gainers in January like Tianjin Zhongxin and HRnet Group succumbed to profit taking. Among our top holdings, only APAC Realty held up and continued its upward path. The stock price for the real estate agency had surged 82% since its listing in Sep 2017.

Interests in Offshore & Marine sector seems to have waned. In last month's newsletter, I mentioned that I have sold out of my position in Sembcorp Marine. The stock has since fallen 30% from its peak and I believe it is a good time to re-enter below the S$2 mark.

Investors who are familiar with me would know that I like to invest in companies which are out of the radar. Here are a couple that I think presents good value at this juncture.

Fund Allocation

Stocks	85%
Cash	15%

Top Holdings (In alpahetical order)

Singapore
- APAC Realty
- Citic Envirotech
- Hrnet
- Sing Holdings
- Tianjin Zhongxin

Hong Kong
- Beijing Capital Intl Airport
- BYD Company
- Geely Automobile
- Ping An Insurance
- ZTE Corporation

Malaysia
- Gabungan AQRS
- Globetronics
- George Kent
- Penta Master
- Serba Dinamik

HRnet

HRnet is one of the most successful HR companies in Asia. It boasts industry beating margins and is one of the most profitable among its peers. Despite that, its stock price has been languishing since its listing. Given its clout in the services industry, I am quite sure it will find favour with investors in due time. Some investors are waiting to see how management would deploy its cash holdings of S$280m of cash largely earmarked for M&A targets globally. I believe earnings will likely jump in 2018 based on strong organic growth and the lack of one-time IPO expenses.

Citic Envirotech

Citic is one of China's largest wastewater companies. Its profits are expected to almost double in FY18. Based on estimates earnings, PE stands at just below 11x, which is the most attractive among its SOE peers listed on SGX. There are 2 institutional investors which have agreed to take up 83m shares at SGD0.85, a 16% premium to its closing price at end February. Both are funds which are intimately familiar with the company. One of the funds – Shandong Hi-speed CE Beijing Investment Fund, is led by China Everbright, which has a water treatment subsidiary listed in Singapore. The other fund, China InnoVision Capital GP, is founded by Zhao Fu, who was instrumental in taking a stake in United Envirotech during his time in PE giant KKR.

Hong Kong

Amid the global sell off, the HK markets was not spared, and the Hang Seng Index went down 5.1% and 3.1% on two occasions in early February. For February, HSI closed lower at -6.21% m-m. However, our HK portfolio was resilient and was only down by 2.1% m-m in local currency terms.

Our view is that while market participants were certainly surprised by the fall after talks of heightened inflations as seen in the 10-year US bond yields hitting close to the 3% levels and economic data like wage growth in the US which indicated inflationary pressure. We believe the market correction was not in any ways a harbinger of more negativity. Our views stems from our observation that the currency markets and liquidity in the China and HK banking systems via HIBOR and SIBOR are not showing signs of distress. Furthermore, the sell off happened when China economic indicators and corporate profits are decent, which seemed to us that it was more of a sour in sentiment.

While the Hang Seng has just given back the gains chalked up since late Dec 2017, we believe that the valuation of the H-shares still look appealing even as it may not be as cheap as before the 36% rally of the Hang Seng Index last year. Hence, we advocate selective buying.

In February, we took profits on China New University and China Education Group which returned 44% and 22% respectively. We also took profits on Meidong Auto which is a small cap auto car dealer with excellent management and was trading at attractive valuations versus its peers. This month is the reporting season yet again for the HK market. With most of our counters set to report decent profits for 2017, we are looking to lock in more profits on these counters with a view to loading them up at lower prices if the opportunities arise. These will include companies in the banking, insurance and consumer sectors.

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

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Malaysia

Our Malaysian portfolio closed with flat return of -0.1% m-m in February. Our portfolio returns were higher in the beginning of February but the sell down during the month pared gains. Renewed concerns over rising inflation and the possibility that the Malaysia central bank could follow the US Federal Reserve in accelerating the pace of the policy normalisation sparked a widespread sell-off in the Malaysia markets.

After a bumper year in 2017, Adrian believes that equity may be due for a pullback in February and March, especially with uncertainties around the political landscape in Malaysia. Hence, the latest sell-off may not necessarily be a bad thing, especially since it helps the market to refocus more on fundamentals, rather than getting carried away by sentiment and momentum. Meanwhile, government spending on infrastructure as well as other programmes ahead of elections could provide a further boost and lift consumption. However, recent inflows of foreign funds into Malaysia equities, bonds and other direct investments have resulted in a stronger ringgit, which may post short-term headwinds for some of our holdings. All things considered, Adrian continues to see good prospects for the companies that he holds.

Indonesia

We initiated a position in PT Arwana Citramulia, a ceramic tiles manufacturer following a research trip to Indonesia. We believe market has overlooked this small cap company as large caps were favoured in 3Q & 4Q last year. However, since the beginning of the year, smaller caps have gained traction. The company is one of the lowest cost producers in the region. In recent quarters, they have raised ASPs of its key products which bode well for FY18's profitability. Trading at 12x FY18 PE compared to its average PE of around 22x, we believe its risk-reward profile is favourable at the moment.

Global Technology

In Jan 2018, we started a global technology portfolio with a view of long term capital appreciation by investing in companies we expect to benefit from the development, advancement and use of technology. Adrian believes that Artificial Intelligence (AI) and machine learning are set to ramp up significantly in 2018. That said, he thinks over the course of 2018 and 2019, technology companies with large and compounding datasets will be able to combine their data with machine learning algorithms to create new source of revenue, build perspective models and deliver substantial competitive advantage.

In February, we generated a return of 13.7%, thanks to AEM Holdings which surged 60% in a month. Other holdings such as Yangtze Optical and Sunny Optical also did well, with returns of 12.1% and 23.7% respectively. Adrian is confident that the technology portfolio will continue to generate a consistent return in 2018 as most of the technology companies he holds are still trading at relatively cheap earnings multiples.

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