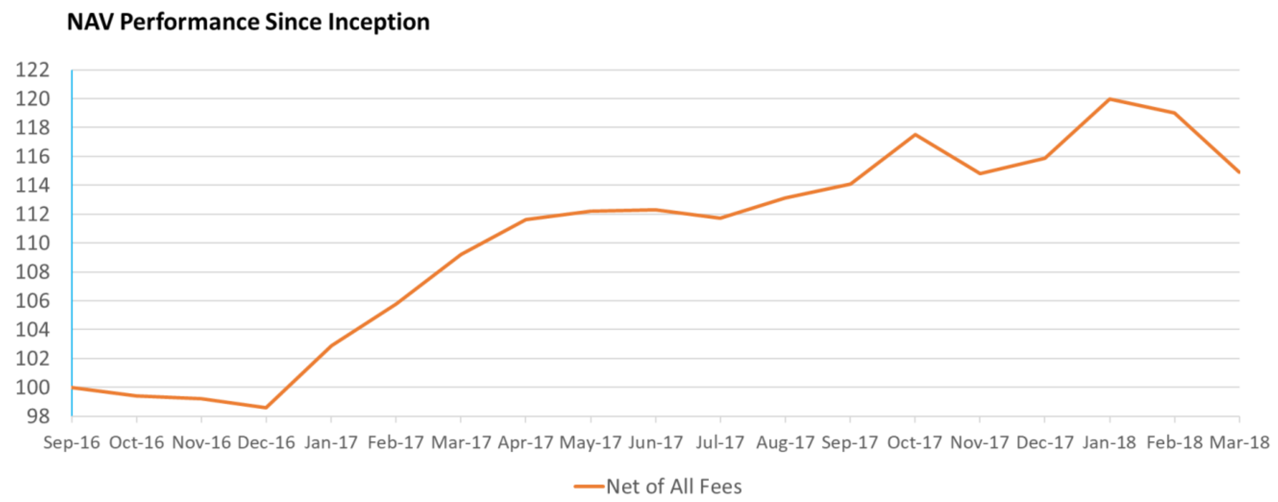
Azure All-Star Fund

Performance for March 2018



Source: Azure Capital & Apex Fund Services

	1 mth	3 mth	6 mth	YTD	1 year	Since Launch
Gross NAV (Before Performance Fee)	-4.2%	-1.0%	+0.9%	-1.0%	+6.4%	+15.6%
Net NAV (Net of All Fees)	-3.4%	-0.9%	+0.7%	-0.9%	+5.2%	+14.9%

In a Nutshell

- NAV fell 3.4% in Mar 2018, as global trade war concerns hit our key markets
- Malaysia was hit the hardest as political uncertainties crept in
- But overall portfolio recovering by the second week of April

Trade war took the wind out of the markets towards the end of March. It was a sea of red for global equities and we were not spared! The worst that can happen for the stock market is uncertainty, and we definitely saw a lot of that towards the end of March and into the start of April.

US fired the first salvo by imposing a steel and alunimum tarrifs and this was quickly followed by a 25% tariff on about USD50b of Chinese imports. There are also concerns on the US imposing restrictions on investments by Chinese corporates amid rising concerns in intellectual property. China officials retaliated by initially drafting a list targeting USD3b of US imports on 23 Mar before slapping extra tariffs at the time of this newsletter of up to 25% on 128 US products including frozen pork, as well as on wine and certain fruits and nuts.

Looking back at the historical data as far as 1985, there is nothing new about the US trade deficit saga with China. The US trade deficit with China has surged by 348% since 2000. It is no surprise that the US targeted the technology exports of China as it is the main source of the widening deficit. The deficit of technology and electronic related products reached US$200b in 2017, accounting for ~53% of the total US trade deficit against China.

Fund Allocation

Stocks	85%
Cash	15%

Top Holdings (In alpahetical order)

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

Hong Kong
- Beijing Capital Intl Airport
- Consun Pharma
- Geely Automobile
- Ping An Insurance
- ZTE Corporation

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

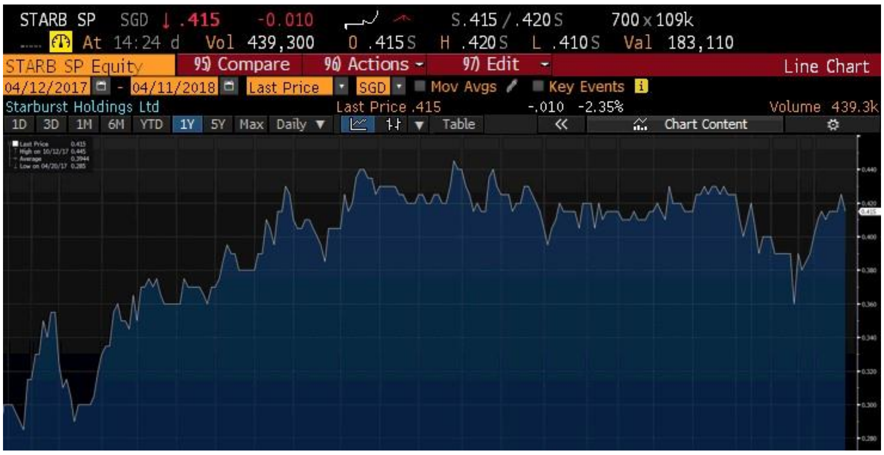
As it is unclear how this trade saga will pan out. The biggest risk, in our view, is an escalation of trade tensions between these two big nations, triggering a broader trade war. However, we believe that these inward-looking and protectionism policies will only be temporary as both countries will see the too-big-to-fail nature of this matter.

Singapore

Our Singapore portfolio was relatively resilient for much of the month, until the trade spat.

HRnet and Citic Envirotech were the biggest casualties, each falling 10% over the month. I spoke to the management of both companies. There are no big changes that should warrant the fall and I have taken the opportunity to accumulate more of both. HRnet is likely to see decent organic growth this year, especially in its core market in Singapore. To recap, it has SGD290m in its coffers that is earmarked for M&A. It is anyone’s guess when the acquisitions will happen, but with a yield of over 3%, we are paid to patiently wait. As for Citic Envirotech, the placement to Shandong Hi-speed, a Chinese state-owned enterprise, went through in late March 2018 at SGD0.85 per share, over 15% premium to the market price. I take comfort in the fact that my average price is lower than the controlling shareholder Citic, which acquired its stake at SGD0.825.

Over the month, we also increased exposure to Starburst which specialises in the design and engineering of firearms-training facilities, and the design, fabrication, installation and maintenance of anti-ricochet ballistic protection systems for firearm shooting ranges and tactical training mock-ups for law enforcement, military and security agencies in Singapore and the Middle East.



Source : Bloomberg LP

Starburst had its IPO in 2014 at SGD0.31 a share and quickly shot up to a high of SGD0.74. Unfortunately, the collapse of crude oil prices led the contract flows from the Middle East (major customers in Qatar and Saudi Arabia) to a screeching halt. This resulted in a decline in its share price in the following 2 years. The management's decision to get involved with construction projects at the Marina Bay Financial Centre was the final nail in the coffin as those projects turned out to be loss-making in 2016. To compound matters, the tendering process to build SAFTI City, a $900m Singapore government defence project, was pushed back.

However, we think the worst is over for Starburst. After a lengthy delay, SAFTI City's tendering process should begin by end 3Q2018, with total value of SGD900m value. The SAF will also be pouring SGD2.25b into expanding its military training facilities in Queensland, Australia, where Starburst will also be a strong contender. Its portion of the business of both the mega projects is ~10%. The gradual announcement of contract wins in the latter half of this year should be a catalyst for the stock.

Terence Wong

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

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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Hong Kong

The Hang Seng Index which was crippled by panic selling in Feb was down by 2.4% and 3.6% in HKD and SGD terms respectively in March, affected by fears of an imminent trade war between the US and China.

In March, we witnessed the conclusion of ‘Two Sessions’ which tends to see the China/HK market closed flat during the meetings before seeing returns pick up in subsequent months as economic activities revive from April onwards. Whether this trend repeats itself remains to be seen in view of the trade protectionism saga and a tightening of liquidity evident in the weakness of the HKD since 4Q last year. HKD weakness could add to the market volatility because when HKMA conducts market operations, liquidity in the market could be removed and the subsequent depreciation of the HKD against the USD could correlate with weak market performance.

At the time of writing, we have also seen the conclusion of President Xi’s speech at Boao Forum in which he renewed a pledge to open China’s once closed markets further for trade and investment. In his speech which we view as largely positive, he reiterated a long-standing promise to reduce restrictions on foreign investment in financial services, including banking, securities and insurance. China will also speed up the opening of insurance sector by easing restrictions on market entrance and business operations and co-operations. In addition, he also stressed the needs for China to strengthen intellectual property rights protection by re-instituting the State Intellectual Property Office to enhance law enforcement.

Hang Seng Index is now trading at 11.6x FY18 PE, a 2% decline since end FY17 while HSCEI ‘s forward PE is now 7.7x FY18 PE. We favor sectors that bode well with long-term structural changes, including structural shifts in household consumption, new economy, and deleveraging of Chinese SOEs.

David Chow

Malaysia

Our Malaysia portfolio was down by more than 10% in March caused by uncertainties revolving the political landscape. The sell-off in Malaysia was further exacerbated by i) fears on Trump’s trade decision which could spark retaliatory moves from major trade partners and ii) the possibility of Malaysia central bank following the US Federal Reserve in accelerating the pace of the policy normalisation.

Index wise, it was flat in March as it was supported by few heavy-weight financial stocks, i.e. Public Bank and Maybank. However, the other sub indices revealed the negative sentiment of the overall market. For e.g. Bursa Malaysia Construction Index, Bursa Malaysia Technology Index, Bursa Malaysia Small Cap Index, Bursa Malaysia Property Index and Bursa Malaysia Top 70 index registered losses of 5.46%, 14.96%, 10.96%, 7.72% and 2.99% respectively.


FBMSC 15034.78 +197.28
At 15:45 d Vol 0 O 14952.90 H 15107.28 L 14952.90 Prev 14837.50
FBMSC Index 97) Settings Comparative Returns
Range 02/28/2018 - 03/30/2018 Period Monthly No. of Period 1 Month(s) Table

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1)	FBMSC Index	MYR	-11.15%	-10.96%	4.01%	-75.63%
2)	KLTEC Index	MYR	-15.30%	-14.96%	--	-86.08%
3)	KLPRP Index	MYR	-8.31%	-7.72%	7.24%	-62.38%
4)	KLCON Index	MYR	-5.62%	-5.49%	9.47%	-49.72%
5)	FBMPM Index	MYR	-5.88%	-5.78%	9.18%	-51.57%
6)						

Source : Bloomberg LP

I believe that the latest sell-off may not necessarily be a bad thing, especially if it helps the market to refocus more on fundamentals, rather than getting carried away by sentiment and momentum. The sell-off has created entry points for us. For instance, Globetronics which is a key sensor maker for Apple products is currently trading at 10x of FY18 P/E, down from 15x previously. In my view, the recent correction as overdone, as the stock is currently trading at the valuation which is below its 5-year mean while the earnings growth is expected to be at least 60% this year, with decent dividend yield of 6.1%. The concerns of a harmful trade war and fear that Trumps could enforce tighter regulation on wider tech industry eclipse the strong and positive guidance of the volume by Globetronic's customers in 2H18.

Another company which is worth mentioning is V.S. Industry. This company is the key contract manufacturer for Dyson's products such as the upcoming Dyson V10 vacuum cleaner and the second generation of supersonic hair dryers. The sell-down in V.S. Industry is not targeted at V.S. alone as its listed peers like SKP Resources and Denko, which have both fallen hard. Apart from concerns on the external environment, I believe concerns of the stronger MYR eroding margins as well as the delay in the commencement of new hair dryer lines for few months have worsened sentiments on these counters. However, the market may have been misguided as the strong MYR will not have huge impact to V.S. Industry as it bills Dyson in local currency, i.e. MYR. V.S. Industry is currently trading at 12x FY18 P/E, which is already slightly below the 5-year mean average, with steady earnings growth of 15-20% in the next two years.

I have conducted several plant visits for the above-mentioned companies recently and went away with positive takeaways noting that the three Dyson suppliers have expanded their facilities more aggressively this year due to strong guidance by Dyson which will support topline growth.

Adrian Toh