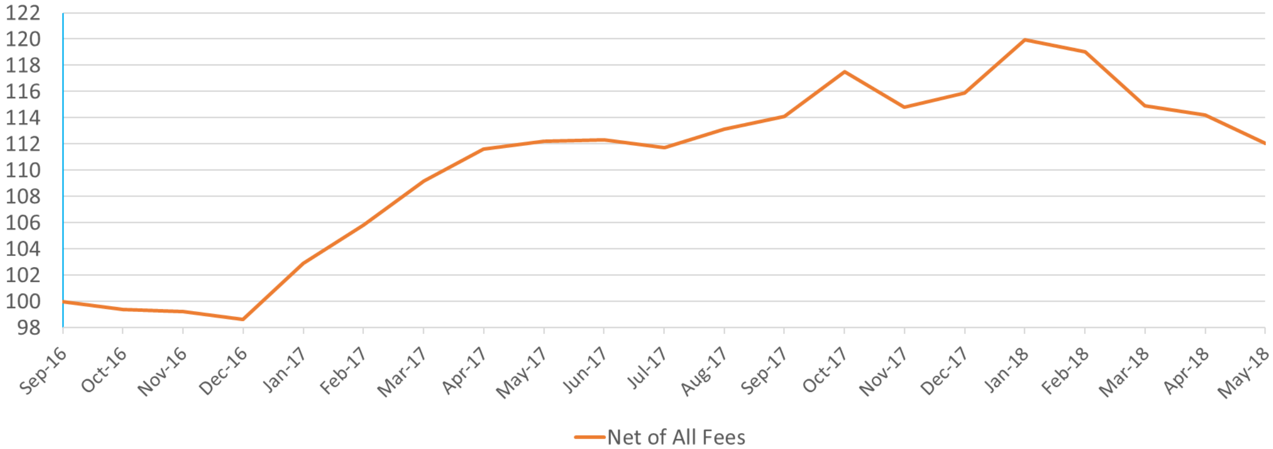
# Azure All-Star Fund

**Performance for May 2018**

**NAV Performance Since Inception**




*Source: Azure Capital & Apex Fund Services*

| | 1 mth | 3 mth | YTD | 1 year | Since Launch |
|---|---|---|---|---|---|
| **Gross NAV (Before Performance Fee)** | -2.3% | -7.2% | -4.1% | -2.7% | +12.1% |
| **Net NAV (Net of All Fees)** | -1.9% | -5.9% | -3.3% | -0.2% | +12.0% |

## In a Nutshell

- S'pore market was down on mixed performances of key holdings
- M'sia portfolio slumped following the elections, as indiscriminate sell-down hit our performance
- Hong Kong and Indonesia markets provided key support in May

## Singapore

The Singapore portfolio was off by 1.3%. The continued strong performance by Tianjin Zhongxin (+18.6% m-o-m) and HRnet (+8.8%) was offset by falls in Citic Envirotech (-8.9%) and APAC Realty (-13.1%).

Citic was hit following the stepping down of its founder and CEO Dr Lin Yucheng, who was made a non-executive director. He was slated to step down after he sold the controlling stake to China state-owned Citic back in 2015. There were wild speculations surrounding the move, but it was something planned for a long while. In fact, Citic - which holds 62% of the company - is likely to up its stake. The company is tightly held. Other than Citic, state-owned PE Fund China Reform Fund owns 23% of the company.

We met up with Dr Lin and the new CEO Hao Weibao the following day after the announcement. At that point, the stock had already plummeted almost 10%. They came on to debunk market speculations and Hao expressed full confidence in Citic Envirotech. The company continues to win big contracts and is trading at one of the most attractive valuations among its peers.

APAC Realty, on the other hand, was affected by the potential listing of its closest rival PropNex. It has slid over 30% since its peak in March. As I mentioned in the previous month's newsletter, I have started to accumulate this below a dollar. To reiterate, APAC should perform well this year, on the back of strong pick-up in demand for residential property in Singapore.

### Fund Allocation

| | |
|---|---|
| Stocks | 80% |
| Cash | 20% |

**Top Holdings** (In alpahetical order)

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

**Hong Kong**
- Beijing Capital Intl Airport
- Geely Automobile
- HEC Pharma
- Nine Dragons Paper
- Ping An Insurance

**Malaysia**

*We sold off most of our core positions before the elections and are in the process of rebuilding a fresh portolio. Akan Datang!*

***Terence Wong***

**Hong Kong**

Our Hong Kong portfolio ratched up gains of +5.6% and +4.2% in SGD and HKD terms respectively in May while the Hang Seng Index saw a slight +0.11% and a slight decline of -1.1% in SGD and HKD terms respectively.

Heightened volatility in Hong Kong's stock market year to date has mirrored the greater turbulence in global markets which has seen a rapid surge in 10-year US Treasury bond yield, see-sawing Sino-US trade tensions, and a strengthening US dollar, which generally impacts emerging markets more than developed markets. Looking at the daily stock connect data, we are aware that southbound investors, which played an important part in bidding up the market last year, have turned more cautious and lightened their positionings in the Hong Kong market. However, even as investors from this segment become less supportive, the daily turnover in the HK market remained at a steady level which indicates to us that there are still plenty of investors sitting on the fence who are in no hurry to buy or sell. This has lent support to the market.

We also noted that the short-term rates in both China and HK have gone up recently. While the higher US yields may have played a part, we believe that this is also due to financial deleveraging by prompting higher financing costs, especially for smaller companies, along with more credit default cases. We have highlighted this in the past and we continue to believe that it will lower the long-term tail risks for the China market.

Below we highlight some of our selected trades for May:

*Samsonite*

Shares in Samsonite International fell to a 9-month low after a short seller - Blue Orca Capital issued a report saying the world's largest luggage maker had questionable accounting practices and poor corporate governance. Blue Orca Capital said the owner of the Tumi brand had concealed slowing growth through debt-fuelled acquisitions and had used accounting methods to massage earnings and inflate profit margins.

We have looked at Samsonite in the past before and were aware of some of the issues that the short seller brought up. We felt the risk- reward was in our favour and hence did a tactical trade to take advantage of the price fall. At the time of writing, we had already exited the position with a 13.1% gain.

*Shun Tak Holdings*

Amid the upcoming development plan for the Greater Bay area which should provide a boost to the China developers which have sizeable landbanks in the area, we felt that Shun Tak Holdings has been a laggard in terms of share price performance among its peers. Apart from Greater Bay projects, the company is poised to benefit from profit contributions from stakes in Macau Nova City as well as an integrated development project (70% owned) in Hengqin, Zhuhai, including office, retail, hotel and service apartments.

Management is also more active now than in the past. As recently as March, they held an analyst briefing which is the first time in three years. They also did a share buyback early this year (also the first time in the past few years). All these indicates that management is paying more attention to the share price now. Valuation wise, it is trading at 0.38x P/B.

**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**
Azure Capital Pte. Ltd.
230 Orchard Road,
Faber House, #07-236,
Singapore 238854

Tel: (65) 6733 0123

*First Pacific*

It is a conglomerate with assets in both Indonesia and the Philippines in the space of consumer food products, infrastructure, natural resources and telecommunications. Most of its earnings are contributed by four listed companies: Indofood (50.1%- owned; the largest vertically integrated food company in Indonesia), PLDT (25.6%-owned; a leading telecommunications provider in the Philippines), MPIC (42%-owned; the largest infrastructure investment management and holding company in the Philippines), and Philex (31.2%-owned; one of the largest metal mining companies in the Philippines).

This stock is down 20% YTD and we believe sentiment has been soured by the fall of the Indonesia and Philippines markets which are down 4.5% and 10.2% respectively as at the time of this writing. As it is currently trading near the low end of range of a 3-year range for both PE and P/B metrics with the total value of its major listed assets equivalent to 216% of its market cap. We think it presents a good margin of safety and we initiated a position in it.

***David Chow***

## Malaysia

May 2018 was an eventful month for Malaysia. Malaysia welcomed the venerable Tun Dr Mahathir of Pakatan Rakyat (PH) as its 7th Prime Minister, bringing the 61-year rule of Barisan Nasional (BN) to an official halt. While this could be market-positive for the longer term, the sentiment for the market turned out to be jittery post-election. KLCI fell sharply by 7% m-m in May. Foreigners were net sellers of RM5.6b in May, one of the highest outflows seen in many years as investors repriced policy risks.

The reality is that Tun Dr Mahathir is taking over at a time where the profitability (GDP growth >5%) of Malaysia is improving through better business, consumer sentiments, tourism, exports, and of course key to that is the recovery in oil-related income. The new government vows to bring down the high public debt of circa 70% to GDP, which in turn should lower interest burden which currently stands at about 13% of government revenues. Tun Mahathir has also reviewed few key mega projects in May which included High Speed Rail (HSR), MRT3, and East-Coast Rail Link (ECRL), and decided to cancel HSR and MRT3.

These moves exerted a strong downward pressure on construction and infrastructure related stocks in Malaysia and saw the Bursa Malaysia Construction Index retraced sharply by 31% in a month.


*Source: Bloomberg*

Apart from the construction sector, all the sectors in Malaysia were equally hit. For example, financial stocks in Malaysia which should in fact enjoy the rising interest rate were hit by the weak market sentiment. Bursa Malaysia Finance Index retraced by more than 6% in May.

Our Malaysia portfolio was impacted by the post-election jitters and registered a loss of 10% in May. However, if you recall, we had trimmed our position in April to retain cash and we have started to deploy some of these cash into several construction names post-election to take advantage of the bearish sentiment. The one name worth highlighting is Gabungan AQRS. This construction company is primarily involved in the infrastructure projects from government as well as construction works from private sector. Post-election, the stock fell more than **68%** in just 2 weeks. The company is now sitting on a strong order-book and currently trading at only 3.3x FY19 P/E.

We believe the Malaysia market should eventually see a decent bounce from the brutal sell-down as valuation in Malaysia dips to attractive levels. Prime Minister Tun Mahathir past credentials of managing the country for over two decades are key considerations on why we think the market will be positive in the long run.

***Adrian Toh***

## Indonesia

The Jakarta Composite Index was up 0.9% m-m in SGD terms but down -0.18% m-m in IDR terms in May. However, our portfolio was down -0.3% m-m and -1.4% m-m in SGD and IDR terms respectively. We were affected by the volatility of the Rupiah which continued to weaken in the better part of the month and led to more outflows from equities before the central bank stepped in to raise interest rates in a bid to strengthen the currency.

May was a busy month for Indonesia on the macro front. Apart from the two 25bps rate hikes, 1Q18 GDP growth came in at 5.06% y-y as it slowed compared to 5.19% in the previous quarter. Fiscal budget continues to post positive acceleration on all fronts as total expenditure growth accelerated to 8.3% on a yearly basis (from only 4.9% in March), while total revenue growth posted slight acceleration to 13.3% (from 13.1% in March). On the revenue side, main growth drivers still come from oil and gas royalties on rising oil prices. Tax revenue remained solid on the back of better tax compliance. Overall, budget deficit remained healthy.

In their meeting, Bank Indonesia emphasized that they want to maintain macroeconomic stability amid rising external uncertainty and lower global liquidity. The newly appointed BI Governor Perry Warjoyo said that he will continue to focus on maintaining macroeconomic stability and support growth of the Country. He also stated that he will maximize the use of monetary policy to maintain stability of Rupiah which should assure investors.

BI’s recent announcement that they will relax certain regulations in the property sector which could be the Loan to Value (LTV) regulations a positive on property counters as some of them have been hit hard and traded to as low as a 60% discount to Net Asset value. We also think that banks could benefit from rate adjustments, but we are also wary on the impact that higher interest rates would have on the asset quality of their loan books. Since mid Feb, the index has fallen from +1 S.D. to -1 S.D. Market is certainly oversold.

***David Chow***