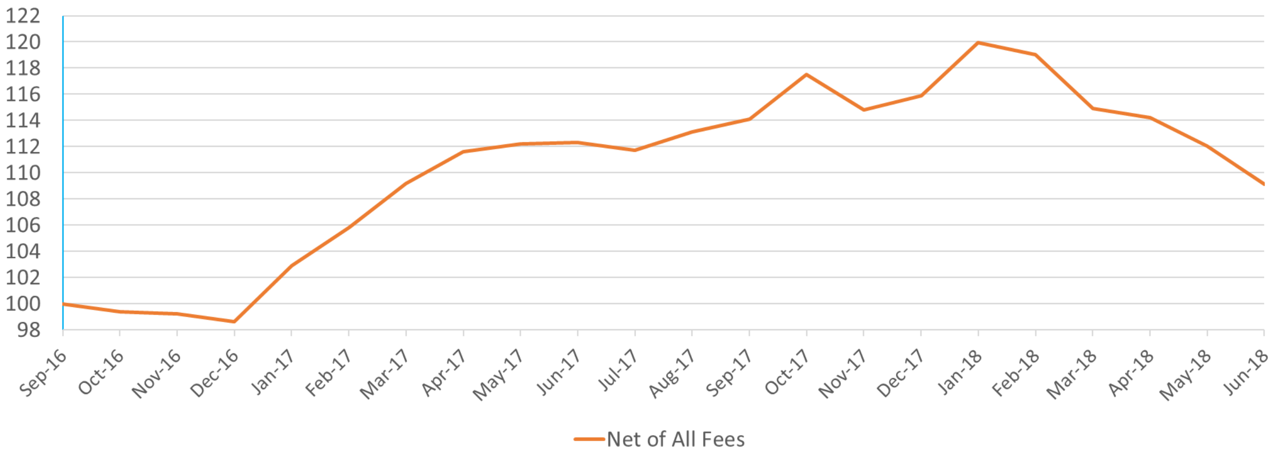
Azure All-Star Fund

Performance for June 2018

NAV Performance Since Inception



Source: Azure Capital & Apex Fund Services

	1 mth	3 mth	YTD	Since Launch
Gross NAV (Before Performance Fee)	-2.6%	-5.6%	-6.6%	+9.1%
Net NAV (Net of All Fees)	-2.6%	-5.0%	-5.8%	+9.1%

In a Nutshell

- Renewed bout of trade war, tightening liquidity and emerging fund outflows took centre stage again in June
- S'pore and HK markets were down for the month
- M'sia market witnessed a strong rebound in June amid political uncertainty

Singapore

The Singapore portfolio got dragged down due to trade war woes, coming off by 3%. Market has seen increasing volatility and I have parked in relatively more resilient plays. We raised the cash level to just over 25% a month back and the rout in the blue chips, which slumped 10% in 2 months, opened up opportunities. The dive in the STI during the past 2 months is one of the most severe in recent memory. Valuations for STI now appear attractive - 12x PE and 4% yield.

Towards the end of June, I took position in SingTel. At my average entry price of $3.08, it offers a yield of 5.7%. It will be paying out 10 cts end of the month, which explains its rally over the past week (+8%). I have also picked up some CapitaLand, which has the least Singapore exposure and trades at 40% discount to RNAV and offers a yield of 4.3%.

APAC Realty has been one of the big-time casualties of the cooling measures in terms of stock price. While I have shaved off the over 70% of my initial position at over S$1, the recent slump still has an impact on the overall portfolio. I have taken a hard look at the stock. While the cooling measures will definitely have an impact on business going forward, valuations are decent at 8x current year earnings, while the yield is over 6%.

Fund Allocation

Stocks	75%
Cash	25%

Top Holdings (In alpahetical order)

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

Hong Kong
- Geely Automobile
- HEC Pharma
- Nine Dragons Paper
- Ping An Insurance
- TVB

Malaysia
- Airasia
- Econpile
- Gabungan AQRS
- MI Equipment
- Penta Master

On a brighter note, two of our top five stocks – Tianjin Zhongxin (TJZX) and HRnet – were the best performers in the FTSE Small Cap Index YTD, according to a report by the Business Times over the weekend.

TJZX has a defensive business through the sale of time honoured brand Su Xiao Jiu Xin pills, a TCM medication for the heart. Earnings have seen a significant rise under the new management. It is trading at less than 10x forward earnings, comparing favourably against its HK-listed and China-listed peers (16x and 30x respectively). It offers a yield of with 4% yield. However, the downside is that it moves in tandem with its China listed peers.

HRnet will also likely see strong earnings growth at the back of momentum in its core Singapore market. It generates generous free cash flows and has a hefty S$300m in its coffers (>30% of market cap), which will be deployed for global acquisitions.

Terence Wong

Malaysia

To recap, Malaysian equities and the Ringgit fell sharply in May in the wake of the surprise election outcome. In June, the KLCI continued to fall 2.8% as investors continued to reprice policy risk. The selling was also exacerbated partly by the regional weakness on the trade tension between US and China. Further foreign net selling of RM4.9bil was seen in June after the brutal net foreign selling of RM5.6bil in May.

The new administration has just announced a string of measures, such as heavy spending cuts and increased dividend contributions from government-linked companies, that would help pare debt and restrain the fiscal deficit at around 3%. As such, our positive long-term view of the market remains unchanged.

Our Malaysia portfolio bucked the trend in June and registered a sharp return of 14%, thanks to our deployment of more capital into several stocks which were heavily sold down in May. We top-sliced Gabungan AQRS, a construction company which we mentioned in May newsletter, as the stock was down by 68% in May. The stock price then doubled and allowed us to gain handsomely from this quick trade.

We also initiated a position in an equipment maker for the semiconductor industry- MI Equipment Berhad. We accumulated a decent size of the company at its IPO debut and saw share price pop 30% a few days after. At this level, the company is trading at only 12x of FY19 PE, compared to peers which are trading at higher multiples of 13x to 30x FY19 PE. We believe that MI Equipment is well positioned to continue riding the current high-growth trajectory.

We have reduced our exposure to most construction companies as major infrastructure projects approved by the previous government are likely to be cancelled or postponed. To conclude, we think country's macroeconomic fundamentals and external finances remain resilient but volatile in the short term due to policies risk.

Adrian Toh

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

Hong Kong

Hang Seng Index was down -5% and -3.3% in HKD and SGD terms respectively for the month as renewed trade tensions flared up, continued deleveraging and the depreciation of the Renminbi took its toll on the market. Our portfolio took a hit and was down around 10% m-m. It was also affected by ZTE Corporation whose share price fell 40% on the first day of resumption following a stock trading halt caused by the sanctions of its operations by the US.

We believe volatility in the HK stock market is likely to persist in the short term even as the central bank has recently tried to calm market jitters by reiterating their stance of a prudent monetary policy as trade talks between China and the US over the past few weeks have reached a stalemate. China is also now experiencing the effects of its deleveraging policy via a credit squeeze. This has adversely impacted sentiments towards the property sector in terms of financing which we have spoken about in the past.

At the time of writing, the Chinese currency has hit a fresh high of 6.7 against the USD last reached in August 2015 and sparkled off concerns that China is attempting to devalue its currency like in 2015 in view of the ongoing trade tensions. We believe the weakening of the currency is chiefly due to the strength of the US dollar rather than a deteriorating economic fundamental for China.

Amidst the volatility, we like defensive plays like HEC Pharma. It issued a positive profit alert in early July with 1H18 net profit rising by a strong 110%. Its key product Kewei, which is the generic version of Tamiflu (Oseltamivir) is used in the first line treatment for influenza. Among its drug portfolio, they also have several tier 2 drugs which are slated to provide additional revenue streams after their launches in 2018/19. It is trading at 17x FY18 PE and looks to trade at only 13.9x PE in FY19. Company is also in strong contention to be drafted into the stock connect in August 2018 which could attract further attention.

David Chow

Indonesia

The market was down -3.1% and -3.8% in IDR and SGD terms respectively for the month but we were only down by 0.7% and was up 0.1% in IDR and SGD terms respectively. The index has lost 9% and (14% in USD terms) in 1H18. The Indonesia market has fared worse than the emerging market index which lost around 10% in USD terms.

During the month, we saw a largely peaceful regional elections with the outcome boosting President Jokowi's electability in the national general elections in Apr 2019 as his allies won most of the seats. The finalisation of presidential candidate nominations on 10 Aug would provide better clarity on how politics may shape up.

We view the central bank's latest move to defend the Rupiah as market positive even as it comes with the expense of a lower growth as stabilising the Rupiah is key to retain investors' confidence. While we are assured of this resolve by the central bank, we also understand that the Indonesia market could continue to be volatile if the trend of emerging market outflows continues. As such, we will continue to proceed cautiously.

We subscribed into an IPO – NFC Indonesia during the month. This company provides a digital hub with two products: an exchange platform called NFCXC and an online video platform called Oona. For the former, the exchange platform will start as a B2B top-up voucher exchange that will allow mobile phone pre-paid voucher distributors to sell vouchers to each other in an efficient manner. In a developing country like Indonesia, pre paid business is a huge and vibrant business as opposed to post paid. These vouchers are common consumer items hence market size is huge and estimated to be around IDR 165 trillion or approximately US$11.5b.

For the latter, the online video platform allows consumers to watch premium content for free anywhere and anytime. The company does not produce the contents or pay for it. Instead, it shares advertising revenue from advertisers with the content providers based on the number of viewership and on the number of clicks from users who decide to click into the advertisements or participate in surveys on their spending habits via their phones. We adore the innovation of the company and believe this is the right way to move up the value chain in a rapidly digitised world. The stock was listed at 21x FY19 PE.

David Chow