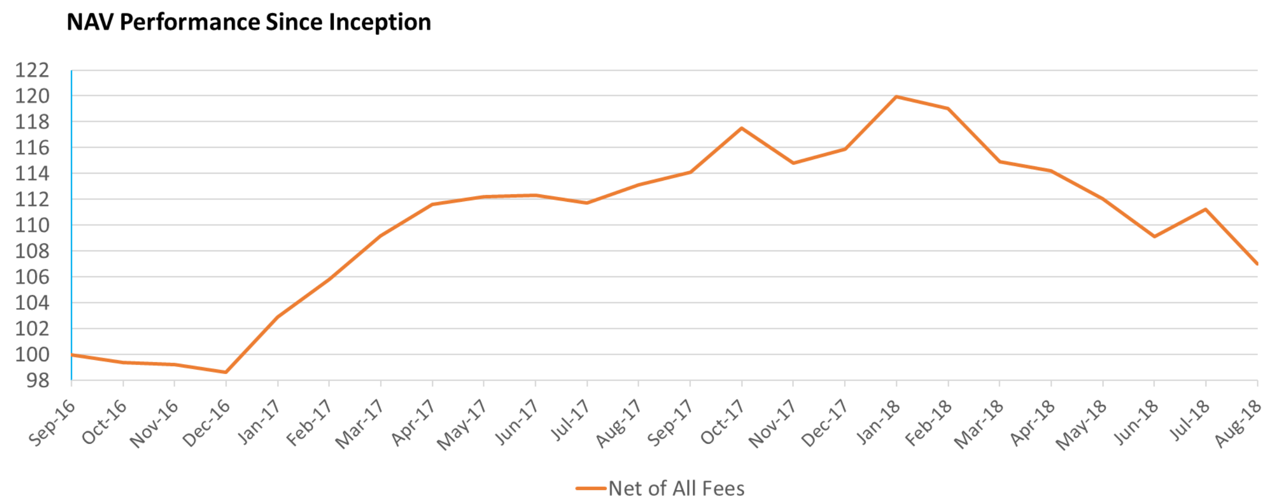
Azure All-Star Fund

Performance for August 2018



Source: Azure Capital & Apex Fund Services

	1 mth	3 mth	YTD	Since Launch
Net NAV (Net of All Fees)	-3.8%	-4.5%	-7.7%	+7.0%

In a Nutshell

- Core holdings in Singapore hit by regional rout
- M'sia portfolio was flat and remains resilient
- HK markets was down as worries on the real economy surfaced on prolonged trade war
- Indonesia market registered another good month amid the emerging market worries

Singapore

Singapore holdings saw one of the worst hits this year as some of the core holdings declined 4% on the back of a regional rout. Some of the biggest casualties in August were the ones which saw the sharpest climbs the previous month, including Tianjin Zhongxin (-9.6%), Citic Envirotech (-7.2%) and APAC Realty (-13.4%). In terms of fundamentals, there were hardly any changes. I have shored up cash in the past few months in anticipation of a market decline and I have started to nibble on some stocks.

One counter that I have taken interest of late is Starburst, a company dealing with defence equipment. I have mentioned in a recent newsletter that it is going to be a beneficiary of the multi-billion dollar SAFTI City. More recently, it signed a tri-party MOU with a 'renowned German defence company' and China-listed CSSCA Technologies. China is a far bigger market compared to its current core markets in Singapore and the Middle East. Should this take off, it will be a kicker to its bottom line.

Terence Wong

Fund Allocation

Stocks	80%
Cash	20%

Top Holdings (In alpahetical order)

Singapore
- Citic Envirotech
- Hrnet Group
- Sing Holdings
- SingTel
- Tianjin Zhongxin

Hong Kong
- A Living
- Galaxy Entertainment
- Geely Automobile
- HEC Pharma
- Ping An Insurance

Malaysia
- Gabungan AQRS
- MI Equipment
- MRCB
- MYEG
- Penta Master

Malaysia

Our Malaysia portfolio registered positive return of +0.28% in SGD despite the Ringgit weakening by more than 1.1% in August against SGD. While key holdings such as Gabungan AQRS took a hit (-20% m-o-m). We saw the share prices of our new economy sectors stocks such as MI Equipment, Pentamaster and MYEG go up by 10%, due to our switch from the old economy sectors tied to suspended government projects including the East Coast Railway Link (ECRL). Companies such as Gabungan AQRS, which was the key contractor for the project, took a big hit. However, we remain unperturbed and expect the company to perform better for the remaining part of 2018. The orderbook of the company at RM2.4 billion will sustain the group for the next 3 years while its property division will begin contributing to its earnings next year. At current price, the stock offers a decent dividend yield of 8%.

In August, we also initiated substantial position in an e-Government service provider company, MYEG Services. This stock cratered post general election due to the change in political powers in Malaysia. However, we see that the two leaders of the company have managed to engineer what seemed to be unthinkable just a few months ago - to successfully revive government ties and to assist in the much-needed reforms within the immigration department. We think that MYEG will provide its expertise in helping the government establish a single system for hiring new foreign workers and liberalise the agency business to lower the overall cost in hiring these workers.

We took profits in Airasia as we believe that a combination of weaker MYR and higher fuel cost does not bode well for airline operators in the near term. We also shaved half of our holdings in Econpile and rotated into new economy sectors.

Adrian Toh

Hong Kong

Hang Seng Index was down -2.4% and -1.6% in HKD and SGD terms respectively for the month and our portfolio was down 3% in both terms as the global market was hit by intensifying trade war that US could have with its allies and renewed emerging market contagion worries ignited over Turkey' and Argentina's economic and currency woes.

Various government agencies have again come out during the month to assure investors that China is economically sound and have the means to withstand and even retaliate against any measures rolled out by the US. We think that a prolonged trade war could adversely affect confidence and any relief rally of the HK market because of policy support would be limited. For that, we do not expect the HK market to return to the highs seen in Jan-Feb. While we believe China continues to have some room to utilise fiscal policy support, large scale stimulus is unlikely due to the ongoing deleveraging which remains a medium-long term priority.

In terms of monetary policy, domestic conditions are not overly prohibitive to PBOC easing, but the issue of the depreciating RMB and the global tightening of monetary policy will limit the amount of policy easing. Continued liquidity support via the various facilities like SLF, MLF and RRR cuts could support markets, but these effects are also likely to be short lived in the absence of benchmark interest rate cuts. At this current juncture, we view there will be better opportunities to buy in on high-risk high-growth sectors such as TMT and healthcare, and in the

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

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meantime advise overweighting sectors with high earnings visibility and low valuation including banks, insurance, materials, and energy but at a better timing.

Our pick of the month will be China Education Group (839 HK). The education sector has been hit by regulatory concerns from authorities on the use of VIE structures by listed entitles to control their "not-for-profit" schools and in the process, reap the benefits that "not-for-profit" brings in terms of lower land cost, lower taxes etc. As a result, the sector stocks fell 25-45%. China Education Group possesses a strong brand name among the higher education educators and the financial impact for existing schools if all its schools become "For-profit" would be a high single digit decrease in its net profit for FY18. Valuation is currently undemanding at 25x FY18 and 18x FY19.

David Chow

Indonesia

JCI Index posted another month in the green as it posted +1.4% in IDR terms but -0.8% in SGD terms. Average daily transaction value increased to Rp6.2tn (US$423mn) in August compared to Rp5.5tn (US$380mn) in July. Even as tensions caused by the huge devaluation of Turkish Lira -34% m-m as well as Argentine Peso -41% m-m, coupled with concern over Indonesia's current account deficit (CAD) which weakened the Rupiah by -2.15% m-m, our portfolio registered yet another month of decent gains. We took this opportunity to take partial profits on certain holdings for the month.

Indonesian market remained resilient with local investors being the main supporter of the Index after 2Q GDP of 5.27% on a yearly basis came out better than market expectation, on the back of Government's social spending effort and Lebaran effect that pushed up private consumption. On Rupiah depreciation, we are not overly concerned by movement in the IDR, which in nominal terms is down to its weakest level since the 1998 Asian Financial Crisis. The 9.3% YTD depreciation of the IDR is still relatively mild compared to other regional currencies – and certainly very mild in relation to the 24.9% fall during 2013, at the height of the "Taper Tantrum".

We have confidence in the current banking and financial systems which are strong enough to withstand the IDR depreciation. Indonesia's July inflation figure of 3.2% was very low compared to the nation's historical standards and thus, should make Indonesian assets attractive in real terms (in contrast, respective inflation in Turkey and Argentina hit 18% and 25%) once the IDR stabilizes. Meanwhile, Indonesia's current external-debt ratio at 34.5% of GDP is very low, vs. the more than 100% of GDP in 1998, while USD-denominated debt is also decreasing in ratio relative to the country's IDR-denominated debt levels.

Our pick for this month is Gudang Garam. Gudang Garam reported 1H18 net income of Rp3,555b, up 13.8% y-y. Over the past three years. 2Q18 net income rose 34.6% y-y to Rp1,662b, driven by a 15% y-y rise in revenue on higher produce prices as well as excellent operating cost control. 1H net income typically contributed to an average of 40.1% of full-year earnings. Based on our channel checks, we noted a price increase of 1.5-2% to be effected in early Sept and there is also the launch of a new product which could further increase top line growth in 2H18. With this, we believe a higher net income per quarter is possible. The company is trading at a PE of 16.8x in FY18 and 15x in FY19.

David Chow

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