30 September 2018

Dear Investors,

The last quarter was not kind to emerging markets, nor to our portfolio. The fund was down 3% in the quarter. While we do not track or attempt to replicate the index, we are measured against it - our net performance fell well short of the ASEAN index during the quarter due in part to our outsize Indonesia (33% NAV) exposure but is in line with the index performance since inception (down around 9%). We are in this for the long term and would caution about judging performance on the basis of a such short timeframe.

We cannot predict when markets will turn, but we do take comfort from the following:

- Fundamentals (including and especially demographics) continue to support long-term economic growth and investment in our markets.
- As markets correct, they are becoming relatively cheap and some stocks are now absolutely cheap.
- Stock market volatility appears to be increasing and participants seem to be even more short-term in focus, an advantage to longer-term investors like us.
- We are well positioned for long-term success in good quality assets and businesses with long runways for value-accretive growth at what we think are very meaningful discounts to fair value.
- We have significant cash in reserve (17%) to take advantage of opportunities as they arise.

During the quarter, on a mark-to market basis, we made money (and re-couped our prior quarter quotational losses) as the price of Thai consumer-finance company Srisawad recovered from short-term market concerns, but lost money pretty much everywhere else, including as the stock prices of large positions Erajaya and Yeah1 fell during the quarter without fundamental reason (see below).

### Table 1 - Largest Gains and Losses

**Inception to End 30/09/2018 - (in millions of $)**

| Largest Gains | | Largest Losses | |
|---|---|---|---|
| Erajaya Common | 0.4 | Yeah1 Common | (0.5) |
| | | Kido Common | (0.2) |
| | | Jaya Real Property Common | (0.1) |
| | | Metro Retail Common | (0.1) |

*Source: Probus Middle East Ltd. & Bloomberg*

Currency moves in the last quarter have been negative for emerging market equities generally and the value of our portfolio specifically. US Dollar appreciation contributed around 25% of our negative returns during the quarter. Notably for the quarter, the Indonesian currency was off 4% against the greenback.

Despite this and the prospect of further US rate rises, we remain unhedged at the portfolio level. We believe that currency hedging over the long-term makes little sense for a fund such as ours for a number of reasons. First, currency hedging, where available, is expensive and short-term in duration. Second, over the long-term, we'd expect economic gains in our markets to drive currency appreciation. Third, we have no crystal ball and are more likely to be wrong than right in predicting the timing and extent of currency moves. We are better off spending our time in analysing companies and their businesses and assets and in managing currency exposure at the company level by seeking to avoid currency mismatches (e.g. between debt cashflows and operational cashflows).

Three of our top five positions carried over from last quarter, though their relative size has changed due to market price changes. Thai seaweed snacks firm Taokaenoi and Thai leather company Interhides made it into the top 5 due to relative appreciation.

### Table 2 - Top 5 positions as at end of quarter

| Company/Security | %NAV | Comment/Developments |
|---|---|---|
| Yeah1 Common/YEG | 7.2 | YEG is an insider controlled Vietnamese digital and traditional media and advertising business, with a dominant presence in fast growing digital advertising in Vietnam and the region. The stock price declined after our purchase and following its IPO on structural issues (no foreign room owing to a delay in a local placement) despite more than doubling earnings compared to the prior year. The company has now implemented a number of measures to address foreign ownership issues (execution of a planned placement to an insider of around $50MM, removal of the foreign ownership cap, and a planned split) and continues to execute ahead of plan. As we write, the stock has moved up markedly from lows amid consistent foreign buying. |
| Erajaya Common/ERAA | 7.2 | ERAA is an Indonesian mobile phone and technology retailer with growing 30% market share in a market still dominated by "mom-and-pop" grey market retailers which modern trade is slowly displacing. The company is following the roll-out of 4G technology by operators to service demand for new devices and is in the early stages of a large-scale expansion into under-serviced regional areas (up to 250 new stores this year) which could double top-line in the next two years and significantly improve operating margins and cash flows. Following in the footsteps of similar retailers in other regional markets, we see longer-term potential for the company to use its supply chain and technology partnerships to move horizontally into other retail initiatives (big box appliance retail, for example). The stock is off from recent highs (but still well above cost) without fundamental reason - it looks cheap relative to other local consumer stocks, regional peers, and its long-term potential. |

| Company/Security | %NAV | Comment/Developments |
|---|---|---|
| Srisawad Common/SAWAD | 7.1 | SAWAD is a family controlled Thai consumer lender with regional (CLMV) ambitions and the expertise and balance sheet capacity to achieve them. The stock price recovered during the quarter after falling by around half this year due to (overdone) short-term concerns over its recent banking license acquisition (to get ahead of potential Bank of Thailand requirements) and such acquisitions impact on provisions and profitability. It is now trading fairly in our view on current earnings with little credit given for regional expansion and balance sheet capacity. |
| Taokaenoi Food/TKN | 4.4 | TKN is a founder-controlled Thai manufacturer of extremely popular seaweed based snacks with a 70% market share in the local market and significant export business (mainly to China, but increasingly to the US and Southeast Asia). After a heavily promoted late 2015 IPO which saw the stock price run up by around 4x, the price fell by half following: (1) declines in profitability due to seaweed shortages and high expenses not matched by sales after the completion of a factory expansion to double capacity and (2) a general slowdown in Thai consumption. TKN is currently under-earning relative to invested capital and the stock is trading cheaply relative to implied earnings power. Management plans to more than double sales (to THB10BN) in the next years and has the production capacity in place and is developing the distribution capacity (especially in Southeast Asia and US) to do this. |
| Interhides Common/IHL | 4.3 | IHL is a family controlled Thai manufacturer of leather products primarily for the auto sector (leather seats, interiors, etc), which sector has a significant presence in Thailand. The company enjoys significant barriers to entry given: (1) lack of land availability adjacent to customers, (2) significant environmental regulations and permitting requirements for tannery operations, (3) long-standing customer relationships for what is a small part of overall vehicle costs. New factory capacity (2.5x existing capacity which will come on line progressively through 2019) is largely spoken for, according to management. The stock looks to be fairly valued based on current earnings, but utilisation of this new capacity will be material to earnings. In addition, the company has a number of medium-term initiatives on the go that will be meaningful for value, including (1) a potential tie-up with Toyota in China and (2) a collagen (a by-product of the tanning process) based health food currently in testing, and (3) pig leather shoe liners also in development. |

Our next update will be at the end of next month as we move to monthly newsletters and commentary following a number of investor requests for more regular updates. In the meantime, please feel free to reach out should you wish to discuss the portfolio or our approach.

### Table 3 - Growth in an assumed $100 investment

| | Fund Class I2 | MSCI ASEAN NTR |
|---|---|---|
| Inception | $100 | $100 |
| March 2018 | $99.49 | $97.50 |
| June 2018 | $93.11 | $86.87 |
| September 2018 | $90.28 | $90.94 |
| Quarterly % Change | (3.0%) | 4.7% |
| Total % Change | (9.7%) | (9.1%) |

*Source: Probus Middle East Ltd. & Bloomberg*

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