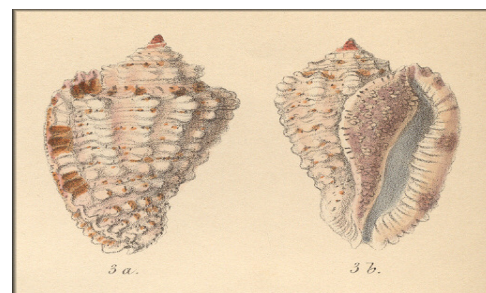


## Halley Asian Prosperity Fund

May 2016

### Performance (%)



Share class	Month	2016 ytd	2015	2014	2013	Since inception	Compound pa
<b>A2 (USD)</b>	<b>+1.6</b>	<b>-3.4</b>	<b>+6.0</b>	<b>+9.9</b>	<b>+35.1</b>	<b>+50.8</b>	<b>+12.4</b>
MSCI Asia ex Japan	-1.3	-0.5	-9.1	+4.8	+3.4	+1.6	+0.5
MSCI Asia Pacific	-1.3	-1.1	-1.6	+0.4	+12.5	+14.6	+4.0
<b>A1 (GBP)</b>	<b>+2.4</b>	<b>-2.2</b>	<b>+11.9</b>	<b>+15.9</b>	<b>+32.3</b>	<b>+65.3</b>	<b>+15.4</b>
MSCI Asia ex Japan	-0.6	+1.0	-3.9	+11.4	+1.1	+12.2	+3.3
MSCI Asia Pacific	-0.5	+0.4	+4.1	+6.7	+10.2	+26.5	+7.0

Note all fund returns are net of fees/costs. The fund is managed on a total return basis and not relative to indices, which are shown for comparison only.  
Inception 30/11/2012

## Commentary

The fund rose slightly in value over May, a period when markets initially weakened then rallied, primarily on the notion of healthier US economic growth. In general investor sentiment remains poor, still much concern focused on China but somewhat tempered by a bounce in commodity prices perhaps indicative of a cyclical lowpoint already having been reached.

## **Policy background- change of sorts?**

As everybody knows, the last 7 years have witnessed unprecedented global money printing. It has done strange things to the values of a wide range of assets, from bonds to stocks to property and modern art and in the process widened the gap between rich and poor, all over the world. It is not over. But there is clearly a growing consensus at a global governmental level that it is not working, that monetary policy on its own will not be able to engender the higher growth rates demanded by the politicians we elect. What is the response to this likely to be? It will vary, country by country, yet it seems to me at least, increasingly likely that we are about to embark on a decade of increased, not reduced government spending. Forget austerity, the tide is about to turn towards politicians finally taking advantage of zero or negative interest rates to borrow more and to 'invest', most likely in a range of infrastructure projects. Needless to say, this also has something of the 1990s Japanese experience about it, although in some countries there is clearly sufficient justification for an upgrading of transport and other social facilities, only bringing them into line with in many cases what is taken for granted in many parts of the East. I am particularly thinking about the Anglo-Saxon economies where this sort of expenditure has tended to lag elsewhere and which now will be very tempting to restart.

I am not sure what if any conclusions to draw from these speculations. Perhaps one should not underestimate the presence of cyclicalities and the potential for governments to switch back to rising debt levels, possibly creating some inflation and also eroding the value of their currencies. Equally one should not so quickly discard businesses operating in essential areas such as transport, logistics, construction and related commodities, to over

focus on faddish consumer spending if it entails paying vast multiples for franchises with less staying power than commonly assumed by many investors. Of course Asia has its own region-wide program of infrastructure development that is benefiting exporters such as Japan and Vietnam within it, but these countries will also gain from any pick up in activity in the West. Strange though to see what might be happening elsewhere, through eyes that have witnessed how one nation has come to terms with deflation, before the rest of the world followed suit.

## **New Vietnam**

I was in Vietnam last week and as usual had a chance to meet with both companies already invested in and others of potential interest. In this I was greatly helped by my new colleague, Kien Nguyen Tran, who started work for Samarang 2 months ago. Kien has been a senior analyst at one of the local securities firms and we have met many times over the years, his excellent research across a number of sectors helping me to identify possible investments. Working for us full time, he is able for example to participate at all the company AGMs I cannot always attend and build up a better dialogue with those businesses we hold stakes in, in addition to generating new ideas for the portfolio.

Our Vietnamese investments have until now tended to fall into some broad themes or sectors, for example, ports/logistics, power generation (especially hydro electric) and gas distribution, as well as some oil/gas services. Visits to some of these companies last week were very encouraging. After an El Nino- related drought (which only led hydro earnings to be flat, not down, margins still extremely high) the rainy season has begun early and operators are optimistic about not just output but both pricing and in some cases potential acquisitions. The gas distributors are expanding

capacity in particular to cope with rapidly growing CNG demand, mainly from the dozens of new factories being established as FDI accelerates further. The port businesses are all just trying to figure out how to spread their wings, through added services such as warehousing and some shipping of their own, or new port acquisition/mergers. Dinh Vu, one of our oldest holdings, just doubled its dividend from 5 to 10% as cashflow far exceeds current investment requirements. Its net margins are stable at about 40% and ROE 35%- hard to beat, when trading on just 5x EV/EBITDA. Even the price of rubber has rallied sharply of late from decade lows. Still profitable during those low prices, companies such as Dong Phu Rubber are now probably trading on multiples of 4-5x earnings with no debt and the important development of their own value added businesses such as manufacturing mattresses and in the future, rubber gloves. Nine of our Vietnamese holdings are now yielding in excess of 10%.

All this is good news for the existing holdings but I was also excited about finding more businesses outside these traditional hunting grounds, in areas such as electrical meters and transformers, provision of fibre-optic cables and software-based solutions to the transport and telecommunication industries. I am now building positions in some of these stocks about which more detail will be forthcoming in the future. One common characteristic here is the public sale of shares by the government, freeing up management and new owners to manage the business both more efficiently and with an increased focus on growth.

The Vietnamese market has itself been trading better recently and on the ground, it is clear that more and more foreign investors are becoming interested. I arrived in Saigon one day before Obama and the excitement that trip created speaks volumes for the sort of forward looking attitude embraced by Vietnam's young and well

educated population. I am lucky to have been able to find an extra resource in Kien, to help take advantage of the opportunities the next decade will throw up to those investing in this market.

## Japan- earnings season summary

Jan has made some comments in his monthly note as regards his Japanese companies' results this quarter/year, which also apply to our holdings. This is important as I have read in some places about May's 'dismal' earnings season, another of the reasons foreign investors have abandoned the market. Here is a little more detail on the largest 7 Japanese stocks we own, which make up the overall top 10 in the fund.

	Sales yoy %	Op earnings %	Dividend change %	Share buyback?	Forecast profits	Performance since
1*	+17	+75	+33	No	+10	Up
2	+8	+35	+6	Yes	-40	Down
3	-5	-18	+10	No	flat	Down
4	+10	+16	+20	Yes	+5	Down
5	-1	+24	+25	No	+5	Up
6	+6	+8	+40	Yes	flat	Down
7	+8	+70	+13	Yes	+2	Down

\*quarterly earnings but annual forecasts/dividend payment

What is striking about these figures is the prevalence of good increases in operating earnings, universal and substantial dividend increases, common buyback activity, uninspiring forecasts for the next 12 months (companies 2 and 3 are notorious for this every year), but all leading to generally poor short term stock performance. Whilst the final column in the table

is always the hardest to predict, I believe columns 2, 3 and 4 give us the best idea where these businesses are travelling in the future. The average metrics for this subset making up 32% of the fund, are

P/E 8x

EV/EBITDA 1.5x

P/Book 0.7x

Div Yield 2.4%

So the combination of these valuations and that operating performance and pro-shareholder management activity, present a very attractive long-term combination. Whilst the fund overall has not recently been able to break out of the general malaise affecting Asian and indeed all global stock markets over the last 12 months, these characteristics suggest it is just a matter of time.

Greg Fisher

## Fund exposure

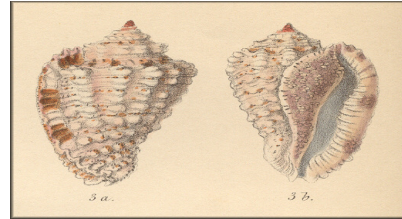
Country	% Fund	Sector	% Fund
Japan	55	Consumer	16
Vietnam	32	Utilities	21
Malaysia	3	Technology	19
Singapore	3	Industrials	22
HK	2	Logistics	12
Indonesia	1	Commodities	3
Sri Lanka	1	Financials	3
Australia	1	Healthcare	2
Cash	2	Cash	2
Total	100	Total	100
Average est P/E	7x	Market cap \$1bn+	12
Price/book	0.8x	Market cap \$500m-\$1bn	36
Historic ROE	16	Market cap \$100-500m	38
Average yield	4.4	Market cap <\$100m	12

## Official NAV figures 31/05/2016

A1 acc	248.0	B1 acc	-
A1 inc	219.6	B1 inc	214.4
A2 acc	377.0	B2 acc	361.3
A2 inc	333.9	B2 inc	-
A3 acc	16.3	B3 acc	13.0
A3 inc	14.4	B3 inc	14.1



## Samarang LLP



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Fax: +3524865618002

#### Fund Information

Name	Halley Asian Prosperity
Domicile/Legal status	Luxembourg UCITS
Valuation Currency	USD/GBP
Minimum subscription	

-Institutional class(A1/A2/B1/B2)	USD 250,000
	GBP 150,000
-Ordinary class(A3/B3)	GBP 10,000

Valuation	Weekly every Friday
Annual Advisory Fee	1% Institutional 1.5% Ordinary
Performance fee	15% returns above hurdle
High water mark	10% above launch NAV
Subscription/redemption	Weekly every Thursday before 3pm EUR time
Initial fee	Up to 3%
Redemption fee	Nil
Auditors	Deloitte
Custodian	KBL Luxembourg

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#### Fund identifiers

	Bloomberg	ISIN
A1 cap	HAAPA1A	LU0855165584
A1 inc	HAAPA1I	LU0855165667
A2 cap	HAAPA2A	LU0855165741
A2 inc	HAAPA2I	LU0855165824
A3 cap	HAAPA3A	LU0855166129
A3 inc	HAAPA3I	LU0855166392
B1 cap	HAAPB1A	LU0855166475
B1 inc	HAAPB1I	LU0855166558
B2 cap	HAAPB2A	LU0855166632
B2 inc	HAAPB2I	LU0855166715
B3 cap	HAAPB3A	LU0855166806
B3 inc	HAAPB3I	LU0855167010

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