Imperial Asian Franchise Fund

Imperial Capital

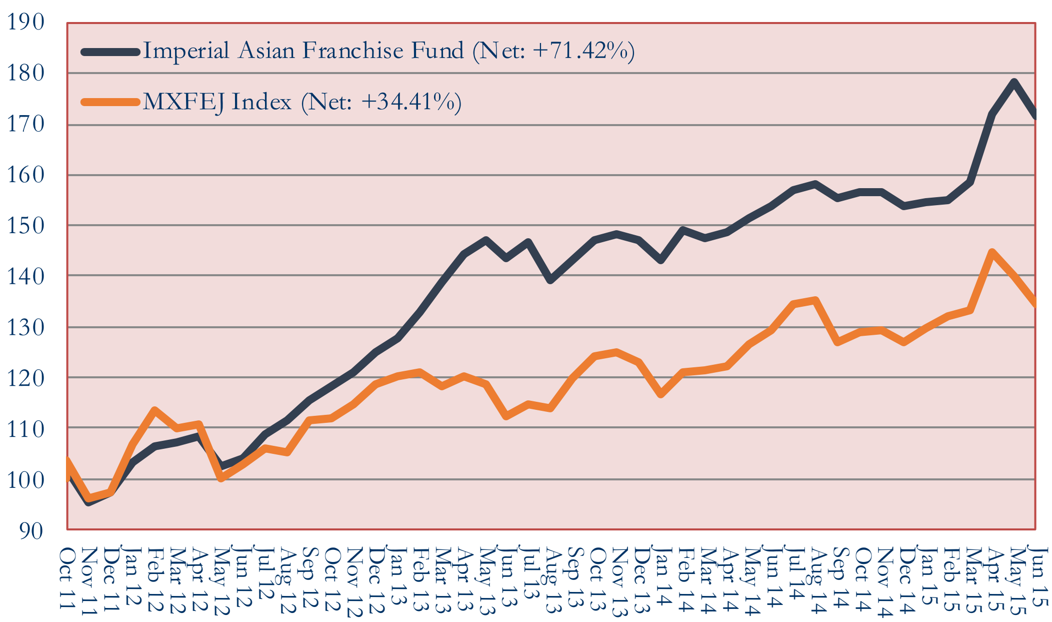
Jun 2015 Monthly Report

Net Monthly Return (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011										2.12	-6.51	1.87	-2.74
2012	6.31	2.91	0.75	1.13	-5.55	1.43	4.79	2.53	3.64	2.33	2.13	3.48	28.59
2013	1.99	4.28	4.24	3.96	2.15	-2.60	2.31	-5.25	2.82	2.85	0.97	-0.86	17.69
2014	-2.83	4.25	-1.02	0.84	1.75	1.68	2.02	0.78	-1.84	0.77	0	-1.73	4.53
2015	0.46	0.30	2.21	8.44	3.67	-3.78							11.41

^Performance for period 25/10/2011 to 31/10/2011

MONTHLY PERFORMANCE CHART (Since Inception)



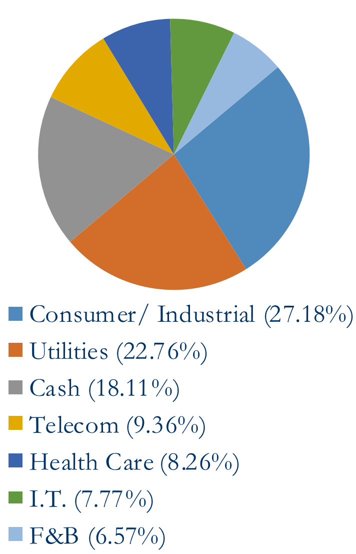
QUANTITATIVE ANALYSIS (Since Incep.)

	Imperial
Number of Positive Months	35
Number of Negative Months	10
% of Profitable Months	78%
Average Perf. (Positive Months)	2.6%
Average Perf. (Negative Months)	-3.2%
Average Monthly Return	1.3%
Monthly Largest Drawdown	-6.5%

PORTFOLIO SNAPSHOT

Beta	0.85
Top Ten Holdings	45.54%

SECTOR BREAKDOWN



FUND OBJECTIVE

This is a high conviction Asia ex-Japan long only equity strategy.

The objective of the Fund is to employ a disciplined investment process to identify companies with durable competitive advantage, particularly intangible assets, and to capture their superior returns as they grow into dominant Asian Franchise operators in the Asia Pacific region.

ESG considerations are embedded in our process to reflect our preference for sustainable enterprises.

PORTFOLIO DETAILS

Total AUM(USD in Mil)#	24.55
# of Positions	27
Weighted Avg. Mkt Cap. ($bn)	20.32
Average Volatility %	9.95
VAR 99%	1.47
Sharpe Ratio	1.03

#Includes managed account

FUND DETAILS

Strategy	Long only
Mandate	Asia ex Japan
Mgt. fee	1.38% per annum
Perf. fee	13.8% HWM
Custodian	Bank of China (HK)
Administration	Alter Domus
Auditor	KPMG
Domicile	Cayman Island

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Portfolio Review

Never a dull moment for Asian equities, it seems at least once a year, comes a black swan to test our investment skills. These are the moments that our investment strategy is prepared, and probably, live for. For the month of June, we manage to match market's decline, which is not great compares to previous performances when down markets, but this is reasonable even if we are to be judged for near term performance, given the magnitude of outperformance and absolute returns generated in the past two months and we have not altered any of our key exposures. It is difficult to withstand declines given the habitual indiscriminant sell off when fear descends upon human behavior and the way shorts often deliberately amplify the desire to exit the markets. This type of market phenomena on the other hand, also presents more hope and opportunities to enter the markets for those with cash.

The perfect storm comes from threat of Greexit, which we find limited direct impact to our investments, and China's clumsy and immature interference to free market mechanisms, first to try to calm a runaway bull market, and then to block investors' exit from the stock market.

Concerns of MERS came and seems to have quietly dissipated as we followed the development closely in the past months for implication and opportunities for our Thailand and Korean investments. We would have liked to hold Bumrungrad Hospital (BH) as a buy and hold type of core holding in our portfolio. The inaccurate news report of BH having 'treated' rather than 'admitted, confirmed, and transferred out' the first case of a MERS patient would not help the hospital's effort to bolster medical tourism after the political turmoil. The new facility is well known to be delayed until 2018, and our key concern is recent official report that the Government is studying measures to allow patients to purchase medications outside of the healthcare units. We estimate this can instantly remove half of the 20% of its pharmacy dispensary contribution to the top line. While the market is not reacting to the potential risks, we decide to exit and lock in our 30%+ gain and monitor coming year's development.

Having turned away from Macau's gaming industry, MERS has given us the opportunity to finally invest in Kangwon, a Korea gaming company. Aside from franchise qualities, the company is expected to receive a new license to open a facility that will cater to foreigners. We expect the company to establish the new facility while sustaining our required franchise parameters.

We have devoted much time to analyze and defend the development of China's tobacco industry for our holding in Huabao, a flavor manufacturer. The company shocked investors with a 180 degree turn in its corporate strategy that was delivered during recent full year result announcement. The company enthusiastically declared no dividend payout, following 100% payout at 1H15 results, and that it is seeking to turn the company from a B to B to a B to C company by nurturing some branded goods in its downstream business line. The chance of existing pension fund biased, shareholders' base willing to continue to own this company is slim, not to mention this sudden change in strategy is totally oblivious to minority shareholders' interests and execution risk is high. We have attracted to the strong franchise valuations, arguably the best in our portfolio and latest move has made us lost confidence in the management. Having shaved our exposure during the share surge in April, we are able to walk away with 12% total return despite the negative 1% contribution to our performance this month.

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Outlook

At the time of writing, a much needed correction in the China bourse has turned into a full fledge market crash, with media zooming into the moms and pops, tearing retail investors that make up the bulk of the turnover in the past months.

China stock market is not the economy despite it being a retail driven bourse accounting for some 90% of turnover, (1) fewer than 15% of individuals invest in stocks, suggesting still room for growth, (2) households on average allocate less than 10% of their wealth to shares and (3) the free-float market capitalization is only approximately 40% of GDP compares with over 100% in developed markets. The equity market did not spur domestic consumption on its way up and should not should not meaningfully drag down economic performance on its way down, as long as the banks' loan book do not get jeopardized materially by margin cuts and usher in systemic risks of the entire financial system which is the general base case scenario. That said, the stock market rise has contributed approximately 1.6% of the 7% rise in GDP growth during the surge last quarter and the economy would get the boost to overall growth. Technically, the US$600bn sovereign fund can be mobilized to support the stock market if the government continues to interfere and meddle unsuccessfully with market dynamics. Meanwhile, the China Bloomberg Monthly GDP Estimate Index, economic growth has improved for three straight months, and our elevator company confirms that the property market is indeed showing signs of stabilization. Yet, this again is checked by recent decline in auto sales suggesting more macro weakness to come. With continual monetary policy easing follow four interest rate cuts since November 2014 and reduction in banks' reserve requirements, liquidity will have to find its way into some form of assets.

While there is fear even to rebalance the portfolio, history tells this is the right thing to do, especially this time, the China bourse decline is triggered by technical interference. We do remain vigilant that this can lead to a systemic fallout if banking system shows signs signs of distress from the margin lendings. HK market seems to be taking the brunt of the decline as investors are basically forbidden to sell in China bourse. Lesson to learn about HK is to never write it off. It often rebounds with the same degree of vengeance that it drops and we are taking the opportunity to invest into quality blue chips that often are 'too expensive' to touch.

A quick look at previous heavy falls in HK stock market—October 23rd (-10.4%), 28th (-13.7%) in 1997, Jan 12th (-8.7%),in 1998, April 17th (-8.5%) in 2000, Jan 22nd (-8.65%) and Oct 8, (-8.17%) in 2008, and October 24th (-8.3%) and 27th (-12.7%) in 2008—all followed with similar magnitude of rebound in following days.

We will continue to put our cash to work and move towards a more fully invested position as we are seeing reasonable values emerging.

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