Imperial Capital

Imperial Asian Franchise Fund

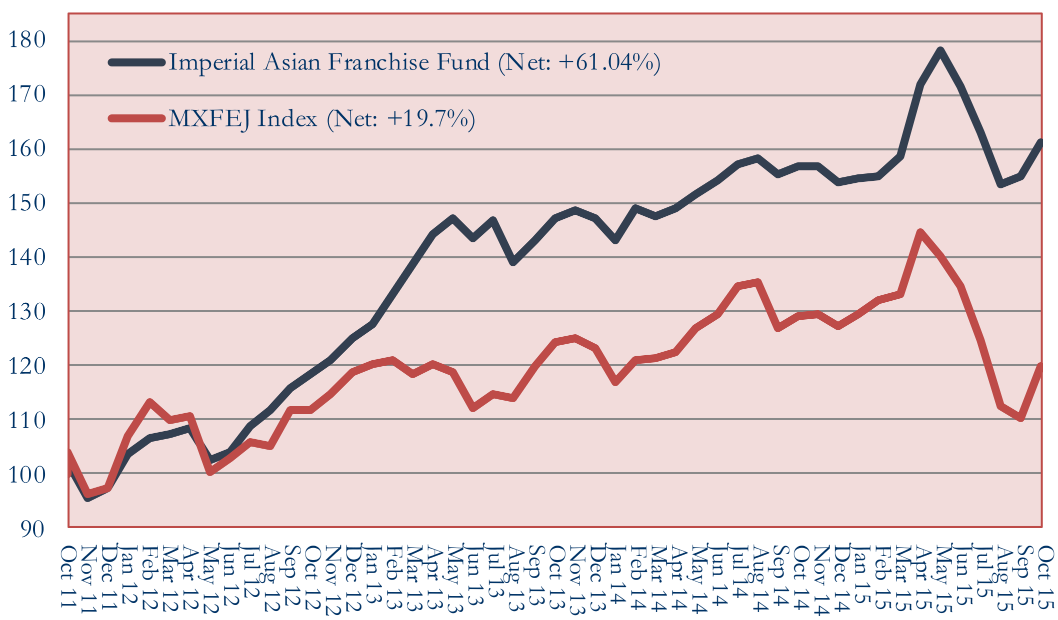
Oct 2015 Monthly Report

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	0.00	-1.73	4.53
2015	0.46	0.30	2.21	8.44	3.67	-3.78	-4.80	-6.07	1.16	3.86			4.66

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

MONTHLY PERFORMANCE CHART (Since Inception)



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

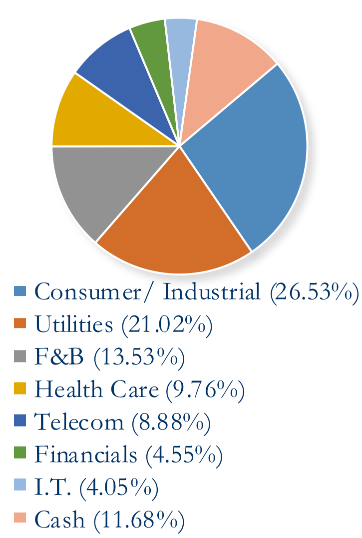
Total AUM(USD in Mil)#	25.79
# of Positions	29
Weighted Avg. Mkt Cap.($bn)	22.23
Average Volatility %	10.79
VAR 99%	1.59
Sharpe Ratio	0.19

#Includes managed account

QUANTITATIVE ANALYSIS (Since Incep.)

	Imperial
Number of Positive Months	37
Number of Negative Months	12
% of Profitable Months	76%
Average Perf. (Positive Months)	2.6%
Average Perf. (Negative Months)	-3.6%
Average Monthly Return	1.0%
Monthly Largest Drawdown	-6.5%

SECTOR BREAKDOWN



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

PORTFOLIO SNAPSHOT

Beta	0.91
Top Ten Holdings	43.02%

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Portfolio Review

The Fund rose 3.86% net for October. With the exception of two of our top holdings which are very low beta stocks with strong recurrent income profile, most of our key investments rose in tandem with the markets. Relative to the relevant index which rose over 8%, our performance paled, as it generally tends to lag in markets' rise and outperforms when markets dip, to produce overall superior return per unit of risks undertaken.

Due to the large discrepancy this month, we dug deeper and found that Samsung and AIA's rise in particular, have cost us over 2% relative to the index. While AIA does not come into our stock screen, Samsung does, and we make a conscious decision to continue to stay away from Samsung despite past month's surge. We expect Samsung's smartphone business, which contributes close to 40% of operating profit, to be continually marginalized by Apple in the high end and Huawei/Xiaomi in the low-end segments. The precarious market share trend does not warrant a franchise status which epitomizes a strong and enduring moat.

The recent announcement by China mobile operators to allow one-month data carry-over policy is but another gesture from policy makers to better social welfare by enabling cheap access to mobile services. Notwithstanding these regulatory risks, we remain positive on China Mobile due to the overriding benefits it can reap from ongoing SOE reforms. The announcement of the State entity, China Reform, to take over the restructure the towers owned by the three operators will give rise to not only one off disposal gain of Rmb 12bn for China Mobile but also long term saving due to lower cost of leasing vs. depreciation to create over 2% positive impact to the bottom line. In the meantime, we also expect 4G rollout will enhance ARPU and subscribers growth.

In view of our exposure to Singapore Post (Spost), we took an interest in Japan Post's recent IPO and particularly its announced acquisition of the Australian logistics company Toll Holdings Ltd. which runs head to head with Spost's Couriers Please. Japan Post's expansion plan may well cannibalize on the Spost growth prospects as Spost is already working with Rakutan and Uniqlo for instance, from Japan. The company IR was not able to readily address our concerns; hopefully that is a reflection of the low level of risk expected from the competition rather than the high level of complacency. It is worth noting that Spost has recently changed the IR contact as Ms. Selena Chong has been promoted to work directly for the Board of Spost and Jason is new to the company. We do take comfort in the fact that Spost has already established a strong foothold in ASEAN region and ecommerce remains at nascent stage, registering only two to three parcels a year on average per household compares with approximately 30 in the developed markets. Penetration rate is also at low level of only 0.2% of total retail sales compares with 10-15% in mature markets. While the pie is still growing and the industry is young, new entrants seem inevitable, and Spost is well positioned to be the dominant player for ASEAN countries. Spost presents both strong cash flow generation from its monopoly traditional mail business and double digit growth story from logistics, and will continue to be our core holding until we see more substantial threat to its growth trajectory.

The Cheung Kong camp announced revised conditions for the proposed merger between CKI and Power Assets (PAH), lifting the amount of special dividend by 50% to HK$7.5/share upon successful

completion of the deal. This pay-out will help reduce CKH (parent company) gearing while its interest in the enlarged share capital of CKI. We view this as a win win for us, as shareholder of both PA and CKH. We plan to continue to own the merged entity and also stay invested in CKH given its huge discount to NAV and strong FCF. We are monitoring the development of UK regulators' review of the Three-02 merger. We do expect the merger to be approved.

Outlook

We are assessing the latest development of the Philippines telecom industry where a new entrant may provide us a good re-entry point to a current two-player market. Following our disposal of the Indonesian telecom operator, we are likely to continue to add to our new investment in the Taiwan telecom industry as capital expenditure for 4G has peaked and the removal of unlimited data is likely to take place in 2016, acting as a major catalyst for the industry players. The stabilization of the China stock market has also prompted us to gain exposure to a F&B company in the A-share market, where we are seeing bottoming of demand and the return of some pricing power of the product.

The topic of El Nino has grabbed the headlines lately, and we looked at some of the potential drought and flood areas where affected crop yields led to price surge in the past. We expect the impact from those most severely affected raw materials and feedstock, including Nickel, Copper, Coffee, Wheat and Corn on our elevator or food manufacturers to be quite negligible, and do not plan on any changes to our investments at this time.

The avoidance of a China hard landing and a slow path of US rate rise seem to be the widely accepted base case scenario now as they are being reflected in recent stock markets' relief rally. This should provide a reasonable backdrop for equities for the foreseeable future. At the time of writing, a December US rate hike seems to be a plausible scenario and emerging markets are taking a beating again. The metaphor "to cross the river by feeling each stone" was used to refer to the pragmatic policy of Deng Xiaoping and now Xi Jinping, and this remains our continual investment style as we try to make small and stable advancement in a highly volatile investment environment.

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