Imperial Asian Franchise Fund

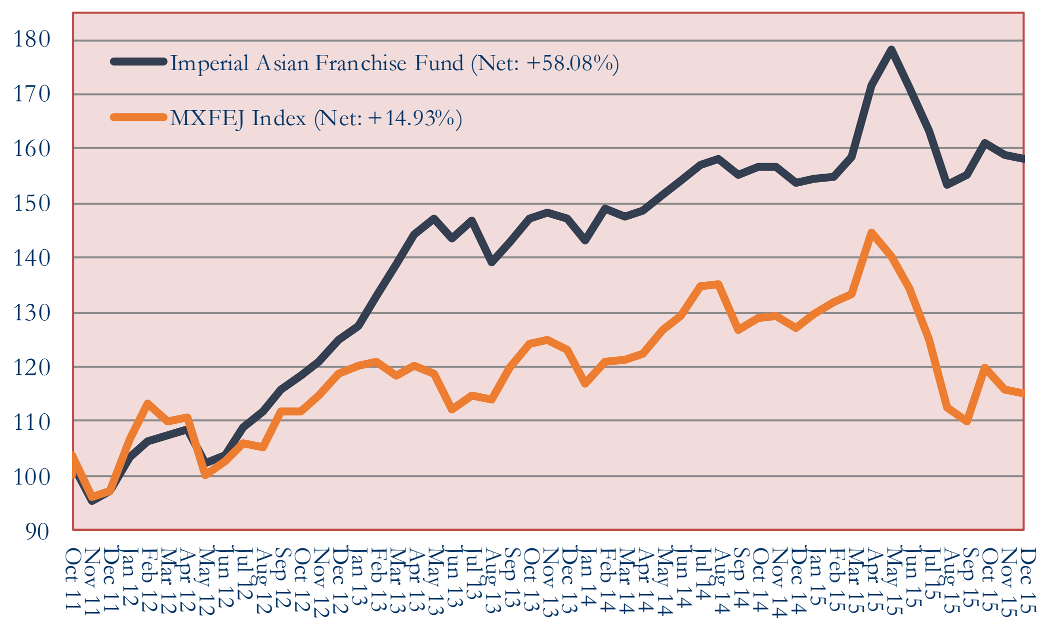
Dec 2015 Monthly Report

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	-1.43	-0.42	2.73

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

MONTHLY PERFORMANCE CHART (Since Inception)



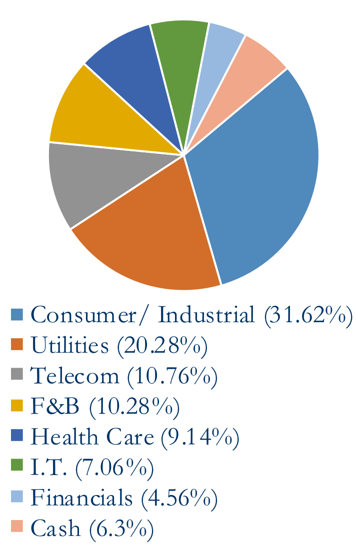
QUANTITATIVE ANALYSIS (Since Incep.)

	Imperial
Number of Positive Months	37
Number of Negative Months	14
% of Profitable Months	73%
Average Perf. (Positive Months)	2.6%
Average Perf. (Negative Months)	-3.2%
Average Monthly Return	1.0%
Monthly Largest Drawdown	-6.5%

PORTFOLIO SNAPSHOT

Beta	0.85
Top Ten Holdings	43.9%

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)#	25.41
# of Positions	30
Weighted Avg. Mkt Cap.($bn)	23.15
Average Volatility %	10.76
VAR 99%	1.59
Sharpe Ratio	0.13

#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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Imperial Capital

Imperial Asian Franchise Fund

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Portfolio Review

The Fund posted -42bp for the month, compares with -1% return on the benchmark. For the calendar year, the Fund produced a positive USD denominated return of +2.73%, compares with the relevant benchmark's total return of -9.52%, delivering a record NAV for the fourth consecutive year. This is a respectable return, whether in absolute or relative terms, given the low risk free rate environment and the broadly negative returns across all major global equity bourses.

We do feel we could have done better if not for (1), stubbornly sticking with some franchises with cyclicality, and (2), sitting through profit taking in some of our holdings towards the end of the year; we observe similar occurrence at the end of 2014.

We did not mind the latter as much as the former. Many of our top holdings in 2015 were the same as those in 2014, and we expect the companies to continue to perform well in the coming year despite correction near the end of the year. As for hanging on to some of the more cyclical franchises, we want to be abide by our Buy-and-Hold investment style and ride through the cycle with these quality franchises so long as we expect the moat to become wider and deeper after each cycle. This is the case with our elevator and bicycle brand maker investments. They turned out to be our biggest losers for the year, notwithstanding their franchise qualities, most notably high free cash flow generation ability and oligopolistic operating environment.

In the past year, investment in the elevator play had been the costliest. The rationale for the sharp price drop is perhaps two folds, (1), while we see this as a valuable franchise, the market regards the company as a growth stock, a derivative on the China property market and penalized the share price heavily when top line growth disappointed and (2), albeit strong free cash flow generation, the recurrent income portion, i.e. maintenance service, of its China business (70%) is not as strong as one would expect, because many buildings in China do not bother to take up maintenance service. This cuts into the lucrative and possibly, one of the most attractive part of owning an elevator company. We thought the government policy change, earlier this year, to compulsory maintenance by vendor would be the game changer, but it seems enforcement remain weak. On a longer term view, the company brand remains one of the dominant players in China's mass market tier, and with 20m people urbanized every year, and versus developed country's 100-200 people per elevator ratio, elevator is still a structural growth story, given China still has roughly 800 people per elevator. We published a note in March 2013 on why we like this industry. (See link http://www.imperialcap.com.hk/file/Sky%20is%20the%20Limit%20for%20a%20Franchise%20Gem.pdf)

We do try to ride the CAPEX cycle by avoiding or exiting the share as CAPEX increases and then gain exposure as we see cash flow starts to accumulate again. This theory has worked in some cases, but we also learned that for some quality companies, many investors would be willing to stick through the investment cycle, and we had to scramble back for shares in the tightly held counter of the Malaysia based surgical glove maker. The company's superior engineering capability yields the local industry's highest profit margin while its strong marketing team is able to secure in advance, orders for all upcoming new capacity; being at the right place at the right time, the company also enjoyed currency tailwind from its USD based products. The stock still turned out to be one of our biggest wins for 2015, generating over 20% USD based return, despite 18% drop in the Malaysian Ringgit.

The two key investments made in 2015 contributed significantly to our performance. Our Korean personal care company has successfully made headway into China

and share was re-rated substantially, and Hong Kong Broadband Network seems to have become better appreciated despite dipping below IPO level on its debut.

We believe mass market focused Macau gaming industry is near inflexion point where risk/ reward scale has tipped towards the latter, on narrowing decline in GGR (gross gaming revenue), bottoming EBITDA, normalisation of anti-corruption campaign, improved liquidity conditions, and continual improvement in transportation infrastructure. Sands is particularly well positioned for a re-rating, due to (1) its dominance in the mass rather than VIP segment, (2) its critical mass on Cotai strip, towards which business continues to migrate from the Peninsula, (3) its strong balance sheet and high free cash flow generation, and (4) the management's focus on return of capital and commitment to dividend pay-out.

Outlook

There is renewed concern on China's economic performance and plunging oil price at the onset of the new calendar year. The Chinese Yuan has stayed relatively firm against all currencies except the greenback and an attempt to cheapen its currency sent global financial assets into tailspin for fear of far reaching consequences beyond financial markets, from competitive devaluation to global deflation. China is trying to engineer a shift from export and investment led growth to more balanced, services and consumption-led economy. To date, Rmb devaluation has been relatively modest and justified by the promise to let market force plays a bigger role and thus a shift from a fixing to the USD alone to a basket of 13 currencies. Despite the likely trend of a weaker Yuan in the foreseeable future vs. the dollar, it is very unlikely to see a substantial currency devaluation which would further accelerate capital outflow and create other problems for China as well as other parts of the world. Policy makers are likely to mainly rely on more rounds of fiscal and monetary stimulus to keep growth on track.

We need to distinguish pure fear from real danger. At the time of writing, fear has blown into outright panic across the globe. While China equity bourses may not be the best gauge of what is to come given the high level of retail participants, who pivot between greed and fear, we do need to monitor the development in debt market to see if it will become a real source of systemic risks in China financial system. At this juncture, we still see affordable products and services that cater to the growing middle class to be a continual growth area albeit moderate and patchy. Stock pick is paramount as growth is by no means broad based. We are deploying our cash to invest as some valuations seem compelling.

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