Imperial Asian Franchise Fund

Imperial Capital

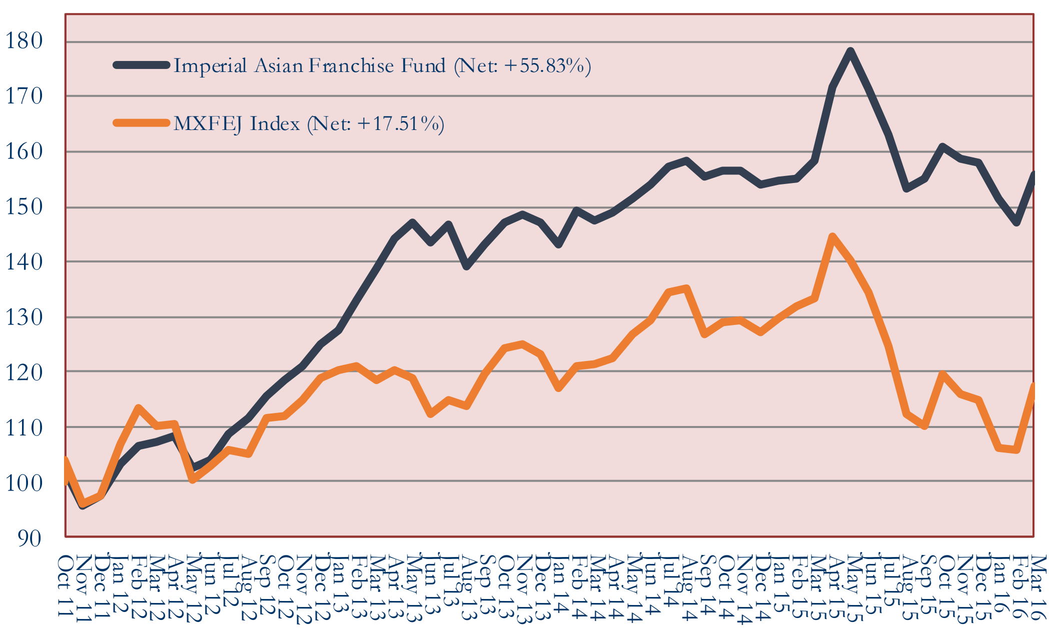
Mar 2016 Monthly Report

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
2016	-4.28	-2.73	5.88										-1.42

^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)#	25.17
# of Positions	29
Weighted Avg. Mkt Cap.($bn)	15.46
Average Volatility %	11.15
VAR 99%	1.64
Sharpe Ratio	-0.18

#Includes managed account *In-house estimate

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)
Administrator	FundBPO^
Auditor	KPMG
Domicile	Cayman Island

^Previous administrator acquired

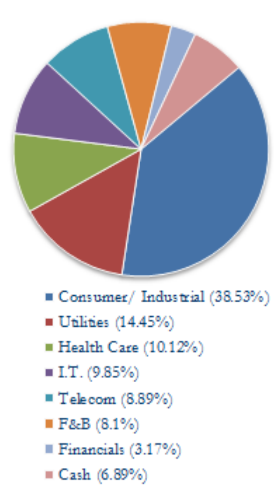
QUANTITATIVE ANALYSIS (Since Incep.)

	Imperial
Number of Positive Months	38
Number of Negative Months	16
% of Profitable Months	70%
Average Perf. (Positive Months)	2.7%
Average Perf. (Negative Months)	-3.2%
Average Monthly Return	0.9%
Maximum Drawdown	-13.96%

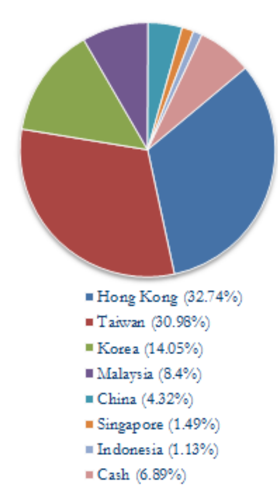
PORTFOLIO SNAPSHOT

Beta	0.65
Top Ten Holdings	45.39%

SECTOR BREAKDOWN



MARKET BREAKDOWN



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Portfolio Review

Our portfolio rose 5.88% for March, on the back of strong 4Q/FY15 earnings results and also benefitted from rebound of global emerging market equities. 16 of our companies announced full year results, they were all in line or ahead of expectations with the exception of Kweichow Moutai and Yungtay. The former remains on track for multi-year earnings recovery and the latter remains a strong cash flow generator.

After a collapse of -18% in FY15, the Malaysian Ringgit recovered over 10% in 1Q16 on Foreign Funds' purchase of US$1.1bn worth of equities in YTD, the highest level since April 2013, to reduce their underweight exposures to Asia's emerging markets while seeking refuge in a relatively low volatility emerging market. The Ringgit rebound was well captured by our holdings in Carlsberg (F&B) and Hartalega (healthcare) in Malaysia.

Currency movement has impacted share price performance in the past quarters, and some of our investments with high Rmb income portion have been penalized on risk of another Rmb devaluation this year. Our base case scenario of a stable to weaker Rmb does warrant caution towards Rmb earners until China economic conditions stabilize. We have constructed a portfolio of stocks with a diversified revenue base, of approximately 25% in Rmb, 23% in USD/HKD, 14% in TWD, 12% in KRW, 11% in MYR, and 15% in others, rendering a balanced income profile in the event of larger than expected depreciation of the Rmb. China remains a long term growth story and we will continue to focus on fundamental outlook of our companies, while ensuring the potential risk of Rmb related currency loss to be well compensated by company's long term growth prospect.

The founder and CEO of OSIM, made an unconditional cash offer to privatize the company at S$1.32/share, a 33.5% premium over 3-month average trade price and raised the offer again to S$1.39. OSIM, a maker of massage chairs, and also majority owner of TWG Tea, is one of the longest held companies in our portfolio; 1100 days. The share has been sold down severely due to slower sales, while the company continues to generate strong free cash flow and is one of the few true home grown Asian brands in our region. While we have exited most of our holdings last year in anticipation of macro-economic headwind, this is a good testimony of how the owner sees value in a company in the midst of equity investors' shortermism, and privatization can surface as an exit point for us, as our franchises typically generate strong cash flow and do not need fund raising, and have few reasons to remain a publicly traded company when valuations are depressed and brings limited value to the owner.

Another Asian home grown global brand VTech, which has a strong brand equity in wireless phones industries in the US and the children's educational learning product (ELP), will soon add the Leapfrog brand under its ELP umbrella. The company made an all cash merger proposal to take over the US listed LeapFrog at US$1 a share in February this year. Despite MGA Entertainment's competing takeover bid of US$1.10/share, the board of LeapFrog rejected the bid and reaffirmed its support for VTech. The proposal secured over 50% vote required for the merger to go ahead on April 1st. The abolition of the one-child policy in China coincides with VTech's expansion plan into China's children's ELP market and owning LeapFrog shall help strengthen its market penetration. China currently accounts for only 3% of VTech's US dominated ELP sales. We value the low cyclicality of VTech's products, and company's innovation capability to continually innovate, with its latest products including baby monitors, wireless monitoring systems and conferencing equipment, all expected to make meaningful contribution to complement its wireless phone operations.

Some of our regional auto part makers have become more investible after years of growth and evolution, becoming specialists in one or more auto part components, and joining the leagues of their global counter

parts in the US/Europe/Japan. As tier 1 and/or tier 2 players in the global auto supply chain, these companies, mainly in Taiwan, are expected to benefit from a number of positive structural developments of the industry in the coming years. (1) While unexciting, global annual automotive sales growth is expected to remain in positive territory, <2%, with China market registering mid to high single digit growth; where tax cut is expected to spur demand further this year. This provides a stable industry backdrop for auto component makers in general, while the replacement cycle also helps underpin stable and non-cyclical demand for auto parts. (2) Regional manufacturers have been steadily taking away market share from the traditional US/European suppliers; this established outsourcing trend is set to continue as the pricing gap with Asian makers remains significant, on average 10-30%, while the quality gap continues to narrow. (3) Stricter road safety regulation, as well as greater driving experience are global phenomena that are driving increased adoption of ADAS (Advanced Driver Assistance Systems), a key part of the continuum towards eventual autonomous driving. ADAS penetration rose from 1% in 2007 to 7% in 2014 and is forecasted to rise to 26% by 2019. Such features as automated parking, forward collision warning, adaptive light control, blind spot monitor, speed limit indicators, tyre pressure monitoring, while still novel, are most certainly to become part of the standard package in future. (4) Increasing popularity of electric vehicle (EV) also means more electronic components in a vehicle as motor replaces engine, and battery replaces fuel, and we expect more % of EV on the road. We have always been attracted to the balanced risk reward trade off of auto parts industry, attributable to the non-cyclical demand from after sales market, and now, the era of digitization has created quality and exciting long term investment opportunities. We are focusing on makers of those auto parts that present high entry barriers, i.e. those that have passed the stringent qualification process of major global auto vendors, the likes of Ford, GM, BMW etc., and whose products are beneficiaries of the auto electrification trend, and would remain so as electric vehicles take hold around the world.

The portfolio was still suffering from declining share price of our Korean power plant maintenance company (KPS) in March. After the initial shock of higher labour cost from new hires in 4Q15 results, the share has been further sold down due to (1) market's shift towards more risky assets, and (2) concerns of further delay of its UAE project commissioning, on news of France Areva nuclear reactor's project delay. We have contacted KPS and the company sees no delay to 3Q start of maintenance work for UAE's first reactor. We believe current levels have fully discounted uncertainties and share is expected to recover once the first UAE reactor is commissioned.

Outlook

Macro headwinds seem to have sharply diminished on the back of weaker dollar and stabilized oil price. Economic conditions in China also seems to be stabilizing on increased infrastructure spending and fiscal stimulus despite prevailing scepticism towards China's ability to engineering a soft landing after 25 years of strong growth. Optimism and share price recovery so far seem to be macro or fear based, and seem incongruent with the underlying cautious tone. It seems many investors are merely piling back into big cap stocks to reduce cash levels and/or reduce underweight to risk assets, including Asian equities. We believe it is pre-mature to price in a sustainable broad based rerating of earnings recovery for Asia, given the lack of growth in China and Japan. We continue to focus on high cash flow companies that offer some growth catalysts to generate absolute returns on our investments.

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