# Imperial Capital

# Imperial Asian Franchise Fund

## Apr 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 | 0.70 | | | | | | | | | -0.74 |

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

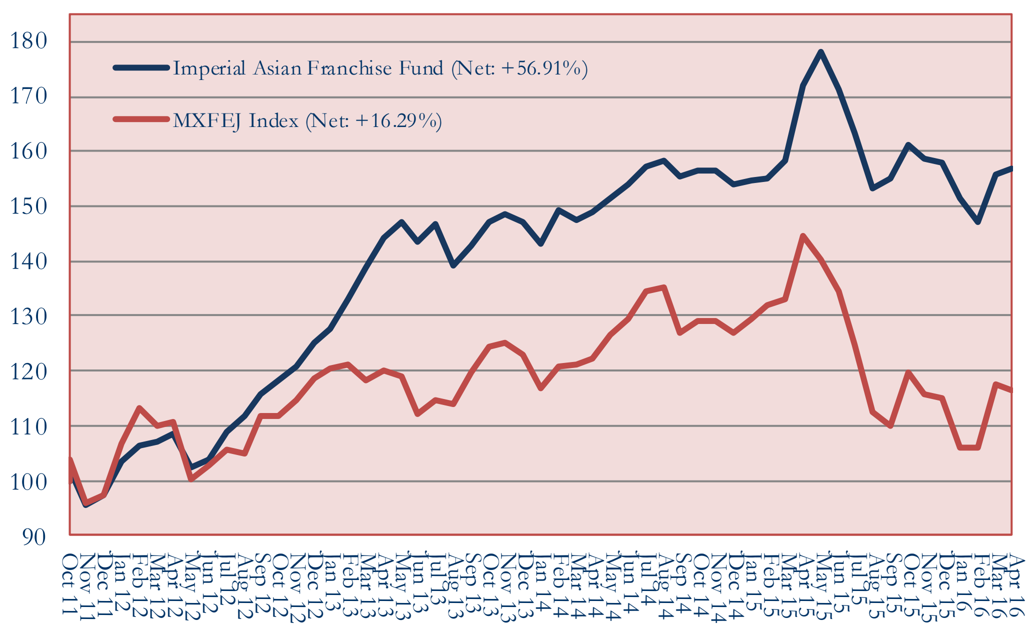
## FUND OBJECTIVE

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.

## MONTHLY PERFORMANCE CHART (Since Inception)




## PORTFOLIO DETAILS

| | |
|---|---|
| Total AUM(USD in Mil)# | 25.32 |
| # of Positions | 32 |
| Weighted Avg. Mkt Cap.($bn) | 14.67 |
| Average Volatility % | 11.12 |
| VAR 99% | 1.64 |
| Sharpe Ratio | -0.75 |

#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) |
| Administrator | FundBPO |
| Auditor | KPMG |
| Domicile | Cayman Island |

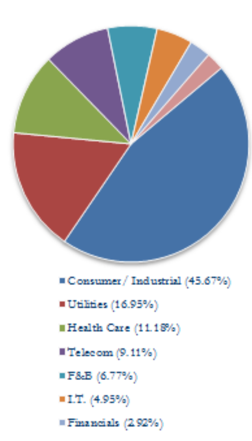
## QUANTITATIVE ANALYSIS (Since Incep.)

| | Imperial |
|---|---|
| Number of Positive Months | 39 |
| Number of Negative Months | 16 |
| % of Profitable Months | 71% |
| Average Perf. (Positive Months) | 2.6% |
| Average Perf. (Negative Months) | -3.2% |
| Average Monthly Return | 0.9% |
| Maximum Drawdown | -13.96% |

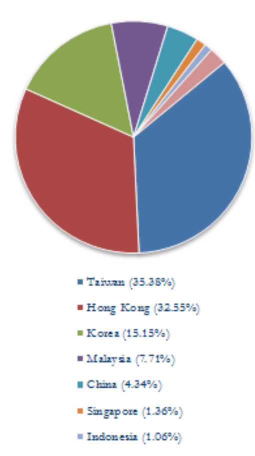
## PORTFOLIO SNAPSHOT

| | |
|---|---|
| Beta | 0.65 |
| Top Ten Holdings | 45.55% |

## SECTOR BREAKDOWN




## MARKET BREAKDOWN

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### Portfolio Review

The portfolio delivered a small positive net return despite regional index's decline. The performance was supported by 9 good set of 1Q results from our companies.

Our gaming play, Sands however, turned in lower than expected set of earnings due to (1) weak non-gaming performance (high margin) including lower hotel revenue, (2) normalization of bad debt expense and (3) soft March performance. While the Macau gaming industry will remain volatile over the near term, we retain our view of a secular growth story driven by the paradigm shift from VIP to Mass as well as improvements in transportation infrastructure and the opening of large scale integrated resorts between 2015 and 2018, amongst which Sand's Parisian is expected to generate close to US$1bn of net gaming and non-gaming revenue in FY17, notwithstanding some incremental D&A expenses.

Taiwan Mobile (TWM) was amongst those that reported a solid set of 1Q16 results, driven by lower handset subsidies and a market-leading 2% gain in mobile service revenue. Most notable news from the industry was that the majority government owned ChungHwa telecom (CHT) announced on April 1st and raised the threshold of its unlimited plans. We have been waiting for the Taiwan mobile service providers to move away from unlimited data plan in Taiwan and it seems to be finally happening. The move by CHT shows and confirms the intent of the sector to gradually transition to tiered pricing and the privately operated service providers, and we expect our TWM to follow CHT's lead soon. We remain positive on TWM's service revenue trajectory, with the start of 4G renewal cycle starting in 2H16 given early 4G adopters were high-end customers and there should be more favourable price plans in the coming months. TWN is expected to participate in the 2.1GHz spectrum auction in 1Q17 and we will reassess the company's cash flow position commensurate with the cost of the spectrum.

We have always been on the watch out for good water plays around our region. China has only around 7% of the world's total water resources, but more than 20% of the global population, with the water stress situation being compounded by the high levels of water pollution. China is doing everything it can to secure and hoard water source. So many investors poured into Vietnam these days, whether as equity investors or factory owners, without much concern of water scarcity problem. I came across recently some data citing most of the world's dams being in Asia, and half of Asia's dams being in China. One can only ponder upon the possible ill consequences if China, as the source of the 4,660 km Mekong River, did not agree recently to release water from one of its giant dams to help the drought-hit riparian countries in the Mekong basin, including Cambodia, Laos, Thailand and Vietnam. We had successfully invested in Thai Tap Water for a number of years and eventually exited, seeing too much policy risk faced by the company on one hand, and the threat of margin contraction as the quality of the water deteriorates through the years, requiring more use of chemical. We also invested briefly in HK listed Tibet Water, which own the right to operate bottled water concession until 2020. While the Tibet government reportedly provides tax cuts, tax holidays and cheap loans, the Chinese government on the other hand, is planning a nationwide cap to set quotas for water use. In Jilin province for instance, the government has already cut mandated quota by half. The stake is too high to own many water businesses in our region. We remain heavily invested in Guangdong Investment (GDI) at this time, despite learning recently that the HK government has set a timetable for a desalination plant tender, which will provide up to 10% of HK water use, thereby threatening the long term prospect of GDI which currently supplies 75% of HK water use. The diamond-water paradox seems to be correcting itself finally, although it remains challenging how we, as equity investors in Asia, can reap

proportionate benefits by investing in water stocks. The opportunity to support the efforts as well as capitalize on the rise in value of this priced commodity is nevertheless worth continual search for the right investments. Given the high level of government intervention and regulations at the upstream of the value chain, we believe relative risk reward opportunities lie with water and waste treatment companies which operate in a less regulated and more supportive environment.

## Outlook

Systemic risk from mounting debt in China has been the key threat to latest China economic outlook and debate abounds whether China can sail through this debt crisis without an economic hand landing and/or currency devaluation. General consensus of late has been an L-shape path to recovery. This is underpinned by latest set of results that suggest stabilization rather than further deterioration of earnings outlook. Earnings can be running ahead of valuations for a change, as companies have finally learned to provide conservative guidance so as not to disappoint, while investors prefer to take risk off the table first given the uncertain economic outlook in China.

**- End -**