Imperial Asian Franchise Fund

June 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	-2.38	-0.17							-3.27

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

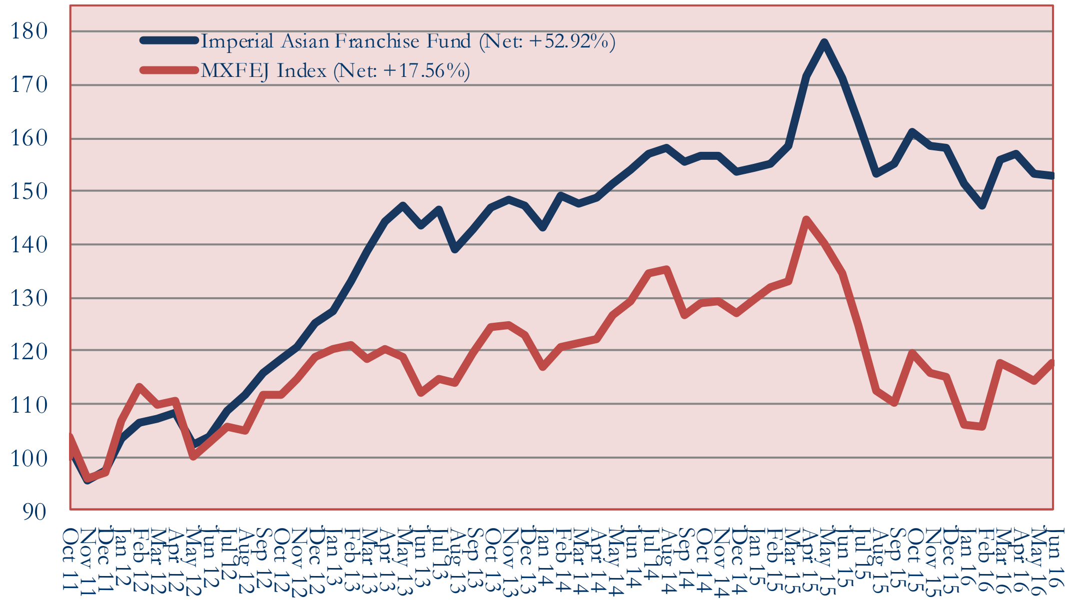
FUND OBJECTIVE

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)#	24.78
# of Positions	27
Weighted Avg. Mkt Cap.($bn)	16.54
Average Volatility %	11.16
VAR 99%	1.64
Sharpe Ratio	-1.02

#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

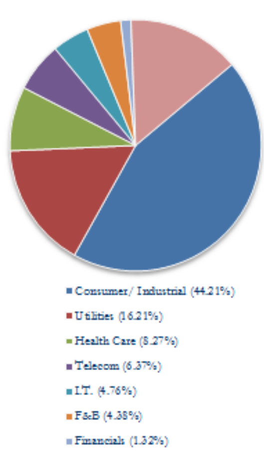
QUANTITATIVE ANALYSIS (Since Incep.)

	Imperial
Number of Positive Months	39
Number of Negative Months	18
% of Profitable Months	68%
Average Perf. (Positive Months)	2.6%
Average Perf. (Negative Months)	-3.0%
Average Monthly Return	0.8%
Maximum Drawdown	-13.96%

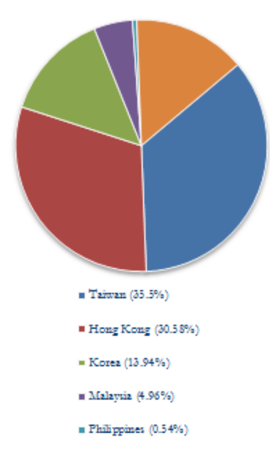
PORTFOLIO SNAPSHOT

Beta	0.71
Top Ten Holdings	46.49%

SECTOR BREAKDOWN



MARKET BREAKDOWN



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Imperial Capital

Imperial Asian Franchise Fund

June 2016 Monthly Report

Portfolio Review

Our portfolio performance was flat for the month. We were expecting Brexit vote to be a non-event but the voting process generated such a high level of market volatility that almost threatened our returns. We cannot generate absolute return without first preserving our capital and our major moves in June was the decision to lock in some unrealized gains from stocks that have performed well and trading at our fair value. We have also been concerned about the lack of liquidity in our mid cap franchise, Carlsberg Malaysia. and lowered our exposure from 4.2% to 1.5% in a block trade and we also decided to lock in all of our profit in Kweichou Moutai as share seems to have priced in all the good news in the horizon.

Our investible universe is based upon our stock screen, which has been shrinking from approximately 250 stocks on average in the past to fewer than 150 this year; this screen also screens in stocks from cyclical sectors that we would not invest in. In other words, there are fewer consistently high profitability and high free cash flow generating stocks, especially those that are over US$1bn market capitalization. We are taking bigger positions in our most high conviction investments and naturally, also taking a harder hit when we are wrong, although our past performance attribution shows that we consistently generate most of our returns from our top holdings.

For the month of June, key share price movements included the declines in HK Brandband and gaming play Sands, which were neutralized by gains in LG H&H and Guangdong Investments share prices. We remain confident of the long term structural growth of Macau gaming and are undeterred by seasonal weakness and those throwing doubts on the historical supply side driven growth. With over 80% of its tax receipts generated from gaming revenue, the fact that the Macau government is edging close to a Fiscal Deficit, assuming the same level of expenditure, bodes well for continual relaxation of regulatory environment to help stabilize the industry.

HKBN remained under selling pressure in June on (1) concerns of revival of the marginal player iCable and (2) more aggressive than expected price cut by HK Telecom that has prompted similar moves by HKBN. Market seems to continually underestimate the economics of incremental gains of new subscribers given there is no new CAPEX. Trading below IPO price, valuations look extremely undervalued as dividend yield climbs above 5%. Even the most bearish DCF analysis from JP Morgan puts the target price back at IPO price of HK$9. These days, telecom stocks often behave like utility plays in times of high volatility, but it has been challenging finding quality telcos in our region which are not coming under threat of new entrants or undertaking higher than expected CAPEX that eats away the otherwise strong cash flow. We have put our telecom bets on HKBN and Taiwan Mobile in our portfolio. The latter not only enjoys strong cash flow generation, the Taiwan industry's transition to tiered pricing has made us most optimistic amongst regional telecos about its stable earnings growth outlook. The company's Chairman however, recently announced his intention to enter the India/Indonesia telecom market, which would necessarily threaten current robust earnings model. We took a precautionary move and reduced our exposure to Taiwan Mobile to just below our top ten holdings.

We have followed HK listed Travelsky (TSK) for a few years and been holding back from investing in this virtual monopoly in China's global (electronic ticket) distribution system (GDS) as we needed to gauge the durability of this enviable moat. Our previous concerns stem from (1) potential new competition to TSK business platform both from overseas and local if/when the government decides to open GDS in China. However this has not happened to date and we should be able to assume that given the three largest China airlines together have over 80% of market share AND are all shareholders of TSK, the status quo will remain largely intact; and by now, TSK also has distinct first mover

advantage. (2) We had been put off by TSK Rmb2bn expenditure for the construction of a new Beijing data operations center with it's real purpose often questioned by public shareholders (that it is for government national security use etc.) as it has undermined cash flow and dividend payout in the past years. CAPEX is now finished and there does not seem to be anymore fixed asset investment in the horizon. (3) The system integration segment has been facing earnings decline but this is expected to turnaround from here on the back of the 13th 5-year plan where the expansion of major airports and new construction of local airports will cost over US$60bn in the coming years, thereby expanding venues for revenue growth for this segment. CAPEX will peak FY16 and FCF expected to rise above 4% in FY17 and continue to increase on efficiency gain, we decide it is time to gain entry. By market's valuations yardstick, the stock is not particularly cheap, being at mid point of trading range and already at par with global peer, Anadeux and Sabre, but we believe TSK earnings and FCF have room to be revised upwards and its unrivaled dominant position can at some point even justify a premium to global counterparts as this SOE unlike peers in developed markets, (1) enjoys high level of support from the government, and (2), operates in China that taps into unparalleled air traffic growth where outbound tourists are expected to triple by 2020 to 122m, a 20% CAGR from 2015. Another catalyst that is not factored into valuation for the stock is TSK's online platform, Umetrip, which offers flight information, mobile check-in etc. services. Umetrip boasts 15m users, while still a negligible % of online travel booking GMV, potential is large and the business has not been monetized at this stage.

Outlook

Although market sees no systemic risk from Brexit, the uncertainties surrounding Brexit may continue to pose a threat to global financial markets' stability, as the complexity of issue hinders markets' ability to gauge actual ramifications. It seems we are only experiencing it through the volatility of currencies so far while the full impact on private sectors will take years to unfold. To this end, Asia seems relatively insulated at the macro level, despite also suffering some volatility from currency dynamics.

Although the portfolio has negligible direct exposure to GBP/Euro, we see currency volatility being the biggest uncertainty and thus risk to our USD based portfolio which spans up to 9 equity markets and currencies. The most supportive factor for global equity markets at this time is that low interest rates environment is here to stay for a while. This backdrop should once again favour high dividend stocks, which should benefit our stock universe.

Concerns over China economic conditions seem to have faded to the background amidst concerns over Brexit. In the coming months, if we read more positive development that can help alleviate investors' concern of China debt crisis, Asia should be re-rated in 2H16 as forecasts are generally conservative. Some investors seem to be already positioning for such a development through cyclical plays. China is likely to lower rates again soon and this should be positive for supporting growth and equity valuations.

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