APS ASIA PACIFIC LONG SHORT (CAYMAN) FUND

FUND DETAILS

Structure	Open-ended	
Domicile	Cayman	
Inception date	31 Mar 2002	
Base currency	USD	
Fund size	USD354 million	
Strategy size	USD418 million	
Number of Holdings	127	
Lead Manager	Wong Kok Hoi	
NAV Prices as at 30th Sep 2018	Class A	USD255.60
	Class B	USD134.92
	Class C	USD150.43
	Class D	USD1,017.85

Share class A & D are closed. For Share class D, the NAV is before taking into account Class D First Loss Protection, and is also before profit allocation, if any.

SUBSCRIPTION

	Class B	Class C
Bloomberg	APSASPB KY	APSASPC KY
ISIN	KYG049891289	
Liquidity	Monthly	Monthly
Min investment	USD100,000	USD100,000
Lock Up Period	Nil	2 Years
Management fee	2.00%	1.25%
Performance fee	20% with High Water Mark	
Subscription deadline	3pm (Singapore time), 4 Business Days preceding	
Redemption deadline	5pm (Singapore time), 30 Business Days preceding	
Redemption fee	Up to 3%	
Subscription fee	Up to 3%	
Legal advisers	Dentons Rodyk & Davidson	
Auditor	Deloitte & Touche	
Administrator	HSBC Trustee (Cayman) Limited	
Prime Brokers	UBS AG Goldman Sachs Int'l Morgan Stanley	

STRATEGY DESCRIPTION

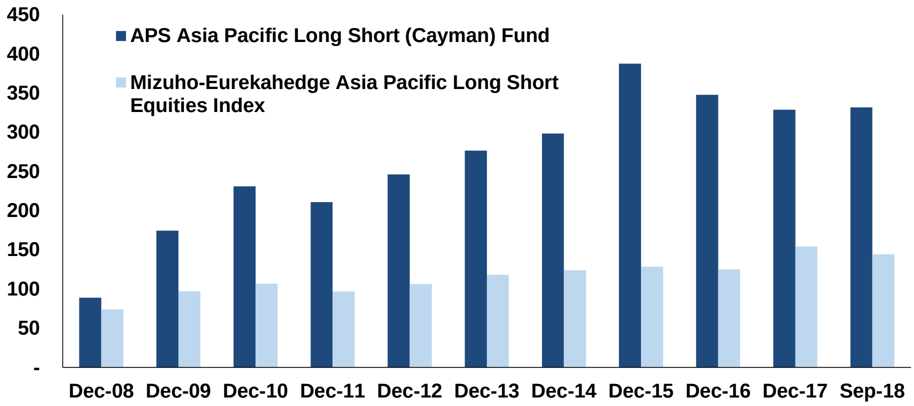
The APS Asia Pacific Long Short (Cayman) Fund (APLSF) invests in stocks of companies in the Asia Pacific region including Japan. The fund seeks to generate alpha from both its long as well as short positions. Our emphasis is on risk-adjusted returns, and avoiding a permanent loss of capital when we make our investment decisions. We invest in companies with strong management teams and durable growth prospects at attractive valuations. The fund sells short stocks of companies with dubious or weak business franchises, and yet are over-valued, especially if they are run by incompetent or dishonest management. We conduct primary research on company fundamentals, which includes members of the management teams, and adopt a strong investigative slant. Site visits and meetings with management form an important part of our research work. We seek to achieve annualized double-digit returns for investors over a market cycle.

PERFORMANCE AS OF 30 SEPTEMBER 2018

				Annualized Returns (%)				
	1M	3Q	YTD	1Y	3Y	5Y	10Y	Since Jan 2008**
APLSF Net Returns	3.67	5.35	0.96	-2.73	-2.13	5.62	13.46	11.81
Mizuho-Eurekahedge Asia Pacific Long Short Equities Index*	-1.94	-4.38	-6.43	-1.34	5.62	4.74	6.34	3.48
Difference	5.61	9.73	7.39	-1.39	-7.75	0.88	7.12	8.33

*Performance of the Fund is represented by the asset weighted performance of the Class A, B, C and D share classes. The Fund is not managed against a benchmark thus these figures are for illustration only. All performance quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than the return figures quoted. The fund returns are net of all fees and charges. Index shown is for performance comparison purposes only. * Based on 16.67% of funds which have reported September 2018 returns as 8th October 2018.*

GROWTH OF A USD100 INVESTMENT SINCE INCEPTION**



***Current investment team structure implemented in Jan 2008*
Fund returns are cumulative and are net of management and performance fees.

COMMENTARY

The Fund gained 5.35% net-of-fees in the quarter, buoyed by our short positions in casino, e-commerce, as well as food & beverage companies that are heavily reliant on Chinese customers. In contrast, Asian stocks lost -0.42% during the quarter, extending losses sustained in the first half. The fund was cushioned by a negative net exposure that dates back to late 2017.

In September, the Fund's gross and net exposures were 188.9% and -4.3% respectively, compared with 194.4% and -6.2% respectively a month ago. The Fund's top net long exposure by country was China at 27.5% followed by Japan at 6.0%, Taiwan at 3.1%, South Korea at 1.6% and Indonesia at 1.3%. The Fund continues to be tilted towards a net short exposure, led by selected Chinese names with US-listed ADRs, Hong Kong and Australia.

APS Asset Management Pte Ltd
3 Anson Road, #23-01 Springleaf Tower, Singapore 079909 Tel: (65) 6333 8600
Fax: (65) 6333 8900 E-mail: cs@aps.com.sg Website: www.aps.com.sg

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TOP FIVE HOLDINGS (%)

LONG	
Venustech Group^	11.3
Shenzhen International	8.3
Beijing Orient National	7.2
China International Travel	6.9
Kweichow Moutai	4.6
SHORT	
China Con. Discretionary^	-11.2
Australia Con. Discretionary^	-10.8
China Consumer Staples^	-10.7
Australia Energy	-9.6
Hong Kong Con. Discretionary	-9.3

COUNTRY WEIGHTS

China A	41.7
China Others	-14.1
Japan	6.0
Taiwan	3.1
South Korea	1.6
Indonesia	1.3
Vietnam	1.3
Philippines	1.2
Singapore	0.9
Thailand	-0.1
United States	-1.4
Hong Kong	-23.5
Australia	-23.7
Futures^^	1.4

SECTOR WEIGHTS

Info. Technology	34.8
Industrials	12.0
Materials	4.8
Financials	3.5
Real Estate	2.3
Health Care	2.0
Comm. Services	1.9
APS Vietnam Alpha Fund	1.3
Energy	-9.6
Consumer Staples	-15.0
Con. Discretionary	-34.2
Futures	-8.0

MARKET CAP (%)

> 5 Bn	-25.2
2 Bn – 5 Bn	-2.5
1 Bn – 2 Bn	18.4
< 1Bn	11.6

EXPOSURE SNAPSHOT (%)

Gross	188.9
Net	-4.3
Long	92.3
Short	-96.6

^ Due to price movement
^^ Futures includes only currency hedges. Index futures are included in their respective countries

Our short position in a **Chinese e-commerce company** with ADRs was one of the top contributors in 3Q18. The company's 1Q and 2Q18 results were below street estimates as its margins remained depressed and it struggled to generate profits. Analysts are now expecting continued margin pressure due to the company's investments and the sustained industry-wide pricing pressure from incumbents like Alibaba and new players like Pinduoduo. In early September, the company's CEO was briefly held in custody on suspicion of criminal sexual misconduct in the US. No charges have been filed yet, and US authorities have not announced the outcome of investigations. The stock price has come under considerable pressure since the story broke. We are closely monitoring developments on this front, which has brought into focus some of the corporate governance issues that we have highlighted in the past.

Our short position in the premium-focused **Macau gaming operator** was a top contributor 3Q2018, as the share prices dropped while industry GGR continued to miss expectations. This trend started in May amidst market's concern over the slowing GGR arising from the stock market crash, a slowing property market, and the deteriorating business environment in some sectors. Investors are beginning to worry about the public tender for the casino concession, which is a huge risk. The company has absolutely no equity, as the dividend payout ratio had been about 100% in recent years.

Our short position in a **Chinese F&B Company** contributed strongly to the portfolio, mainly driven by the significant share price correction in August. This was led by an overall correction in the sector due to market fears of an economic slowdown in China and continued weak fundamentals at the company.

We think the sector correction was somewhat healthy, as valuations were pricing in unrealistic growth expectations. Fundamentally, we believe the market has realised the company's price-hike-led margin improvements are not sustainable. We note the company continues to lose market share to key competitors like Uni-President China in premium noodles and beverages, specifically Ready-To-Drink (RTD) Tea. This reinforces our view that the company is not yet participating in the longer term premiumisation trend. We hold on to our investment thesis that the company is currently exposed to the mature mass segment as well as declining segments of the noodle markets. It is unable to grow and defend its RTD tea franchise in the face of stiff competition from its peers.

The company recently shared their beverage strategy of focusing on their loss-making bottled water franchise, which we feel is structurally challenged. This is a poor allocation of the company's resources given its much lower returns on invested capital. This is not the first time the company has tried to turn this business around, and we therefore remain less sanguine on its success. We will continue to track the company's strategy closely to look for signs of change, but for now, our investment view on the company remains.

Venustech Group's share underperformed the CSI 300 Index by about 9 percentage points in 3Q 2018 after the company clarified that its FY earnings growth guidance was only around 8%, instead of an expected 30% increase mentioned in an earlier announcement that included one-off elements. This revised figure was below market expectations. Its 1H earnings report also showed that after stripping out the accounting gain from the change in accounting methodology for equity investments, its recurring net loss was CNY68 mn, deteriorating from CNY24 mn a year ago. While orders from some other sectors grew an aggregate 35% YoY, new orders from the military did not improve in 1H. However, revenue from high entry barrier urban security operations surged to CNY50 mn, and could contribute CNY200 mn to the 2018 topline. We expect this service offering to make a meaningful contribution to the company's topline growth in coming years, as well as improve the company's overall cash flow profile.

Beijing Orient National detracted from performance during the quarter, dragged lower largely by weak 2Q earnings. Its 1H results showed topline growth of 5.78%, and bottom line growth of only 2.48%, which was at the low end of company guidance. This was mainly the result of delay in revenue recognition and the initial startup cost of about CNY50 mn for its industrial internet business. Many investors have high growth expectations for this segment as well as the government sector, but both showed sluggish growth during 1H due to a delay in revenue recognition. The growth rates for both segments are expected to recover during the second half.

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BJ Oriental can look forward to a boost in winning orders due to its inclusion in the cross-industry national platform that has strong backing from the central government. With some help from Huawei, the company is already booking new orders in Beijing, Shanghai and Zhongshan. We are staying invested as we expect BJ Oriental to meet its earnings growth guidance of around 30%, which makes the 23x 2018E P/E valuation reasonable, on top of its entrenched position in the rapidly growing market of big data application software.

Semiconductor Manufacturing International Corporation (SMIC) was a detractor to performance amid investor concerns for the sector over persistent news flow from the Sino-US trade war. In the longer term, regardless of the outcome of the trade tussle, we believe the Chinese government will step up its efforts to assist local companies in becoming national champions. We believe SMIC, being the largest foundry in China, will be a key beneficiary. We acknowledge some of the near-term technology challenges but note that year-to-date, the company has been on track and achieving its R&D milestones. While we recognise that the ability for the company to ramp up its newer nodes is important, we believe that the market is missing the bigger picture. With a strong and credible management team, support from the government's China National IC Investment Fund (CICF or "Big Fund"), we believe SMIC will over time narrow the gap with its competitors, and become China's undisputed foundry leader.

Source: APS

RECENT NEW POSITIONS

We initiated a short position in a **global technology company** that designs and sells consumer electronics, software, and online services. We see increasing downside risk for the stock as Sino-US trade tensions weigh on its China-centric manufacturing supply chain. We also question its ability to pass on potential costs from trade tariffs to customers without losing market share, as its recent product introductions have been lacking in terms of innovative features.

We established a position in **Global Unichip Corp (GUC),** a Taiwanese provider of customised design services for Application Specific Integrated Circuits (ASIC). GUC also helps clients develop silicon intellectual properties, as well as providing licenses for existing IP. The strong management team, mostly ex-TSMC staff, has positioned the company well to tap on growth trends in high-performance computing and AI. This has led to strong revenue growth and improving return on equity, which we believe will persist.

We have initiated a short position in an **online auto finance and marketing service provider** in China. We believe that the company's business model is weak and its management has very limited competence in growing the business. China's auto industry is facing a slowdown in demand this year, and at the same time the cost of funding is increasing for this company. Additionally, we also expect a higher delinquency rate this year, which will further reduce its earnings. Our research suggests that the current valuation still does not fully incorporate the headwinds that the company is facing.

RECENT EXITS

Takara Bio focuses on the supply of biotechnology research reagents and scientific instruments, as well as various contracted services which include the AgriBio Business, and the Gene Therapy Business. The latter develops and commercializes gene therapies for cancer. The company announced better than expected FY17 results and an agreement for collaboration in product development with Otsuka, one of Japan's largest pharmaceutical firms. These factors helped the stock outperform the market and it had reached our target price, so we liquidated our position.

Following a share price decline to our fair value target, we took profit on our short position on a **Chinese diesel engine manufacturer** which supplies engines to heavy duty trucks and other industrial equipment manufacturers.

Unless otherwise stated, all information is as of 30th September 2018 and sourced internally from APS

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