APS ASIA PACIFIC LONG SHORT (CAYMAN) FUND

FUND DETAILS

Structure	Open-ended
Domicile	Cayman
Inception date	31 Mar 2002
Base currency	USD
Fund size	USD345 million
Strategy size	USD401 million
Number of Holdings	133
Lead Manager	Wong Kok Hoi

NAV Prices as at 31st March 2019	Class A	USD260.81
	Class B	USD137.16
	Class C	USD153.50
	Class D	USD1,044.99

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

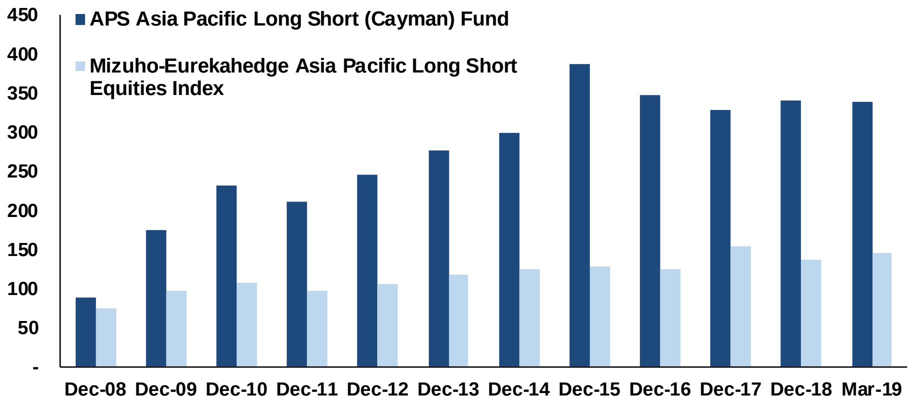
The APS Asia Pacific Long Short (Cayman) Fund (APLSF) invests in stocks of companies in the Asia Pacific region including Japan. The fund seeks to generate alpha from both its long as well as short positions. Our emphasis is on risk-adjusted returns,and avoiding a permanent loss of capital when we make 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 31 MARCH 2019

				Annualized Returns (%)				
	1M	1Q	YTD	1Y	3Y	5Y	10Y	Since Jan 2008**
APLSF Net Returns	-0.23	-0.59	-0.59	-1.55	-2.56	4.69	11.89	11.45
Mizuho-Eurekahedge Asia Pacific Long Short Equities Index*	1.58	5.82	5.82	-6.65	5.10	4.17	6.94	3.34
Difference	-1.81	-6.40	-6.40	5.11	-7.66	0.52	4.96	8.11

*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 14.50% of funds which have reported March 2019 returns as 5th April 2019.*

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 lost 0.59% net-of-fees in the quarter, while the Mizuho-Eurekahedge Asia Pacific Long Short Equities Hedge Fund Index was up 5.82% during the same period.

In March, the Fund's gross and net exposures were 221.4% and -22.6% respectively, compared with 213.3% and -24.9% respectively a month ago. The Fund's top net long exposure by country was China at 25.3% followed by Japan at 3.4%, Taiwan at 1.6% and Vietnam at 1.3%. The Fund continues to be tilted towards a net short exposure that we have maintained since late 2017, led by selected Chinese names with US-listed ADRs, Hong Kong, and Australia.

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TOP FIVE HOLDINGS (%)

LONG	
Venustech Group	10.5
China International Travel	9.1
Shenzhen International	8.7
Beijing Orient National	7.6
Gree Electric Appliances	6.5
SHORT	
Australia Con. Discretionary^	-12.9
China Con. Discretionary^	-12.8
Hong Kong Con. Discretionary	-11.1
China Con. Staples	-10.9
Hong Kong Con. Discretionary	-10.0

COUNTRY WEIGHTS

China A	55.0
China Others	-29.7
Japan	3.4
Taiwan	1.6
Vietnam	1.3
Philippines	1.2
Singapore	1.2
South Korea	1.0
Indonesia	0.6
Malaysia	0.0
Thailand	-0.5
United States	-8.7
Australia	-23.3
Hong Kong	-26.6
Futures^^	1.0

SECTOR WEIGHTS

Info. Technology	21.5
Industrials	13.2
Materials	4.0
Health Care	1.7
APS Vietnam Alpha Fund	1.3
Real Estate	0.9
Comm. Services	-0.8
Financials	-2.4
Utilities	-2.6
Energy	-7.0
Consumer Staples	-10.3
Con. Discretionary	-34.1
Futures	-7.9

MARKET CAP (%)

> 5 Bn	-46.6
2 Bn – 5 Bn	15.2
1 Bn – 2 Bn	4.8
< 1Bn	10.6

EXPOSURE SNAPSHOT (%)

Gross	221.4
Net	-22.6
Long	99.4
Short	-122.0

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

Venustech Group was a top contributor during the first quarter, driven by upbeat prospects for their urban security operations business and substantial fund flows into the tech sector. The market size for the urban security operations business is around CNY20 billion, and Venustech's goal is to take 30% market share, making it one of the company's largest growth drivers over the next several years. New orders in 2019 will likely reach around CNY450 million versus CNY150 mn in 2018. On the other hand, investor sentiment towards the sector recovered, prompting ample liquidity inflows to the tech sector. The stock traded at 44x 2019E P/E. This is reasonable considering the 30% earnings growth p.a. over the next three years, the cyber security industry's large growth potential, and recurring earnings from its urban security operations business.

Beijing Orient National was a key contributor in 1Q19, underpinned by healthy 2018 financial results and strong growth potential in the industrial internet business. In addition, investor sentiment towards the tech sector also recovered. The company's 2018 results showed earnings growing 30%, and the company is targeting 20%-25% growth in 2019, which exceeds market expectations. Meanwhile, its digital twin technology underpins its core competency in the industrial internet field, which is expected to contribute more as a growth driver for the company. The stock traded at 26.7x 2019E P/E, which is still reasonable given that the adoption of big data software in China's industrial sector is still in its early stages.

Our short position in a **Chinese e-commerce company** with ADRs was one of the detractors in March. The stock appreciated after the company announced 4Q18 results in early March, where the company reported operating losses lower than the street's expectations and the management guided for margin improvement in FY19. We believe that the stock price appreciation is not sustainable as the fundamentals of the company continue to weaken. Recently, media has been reporting resignations from several senior employees of the company. Our channel checks also confirm that there are several management issues that are negatively impacting its operations. For the year 2019, we continue to think that headwinds will persist for the company due to industry-wide competitive pricing pressure and a slowdown in high-value consumer discretionary spending.

Our short position on an **Australian Retailer** was one of the top detractors in March. The stock appreciated along with the general domestic market as investors expect the central bank to cut interest rates to boost the softening housing market. We believe this will have limited impact on turning the housing market around, as interest rates are already low and housing completions are peaking, which will impact employment and wage growth. From a fundamental perspective, the headwinds from the slowing housing market and the ramp up of Amazon in Australia will continue to negatively impact this company.

Source: APS

RECENT NEW POSITIONS

We believe the long-term demand for high-quality TV dramas will continue to rise as consumers become more affluent and spend more on entertainment. According to iQiyi, one of the largest video websites in China, the number of paying subscribers increased by 72% YoY to 87.4 mn in 2018. The growth momentum is expected to continue into 2019. Rising demand will benefit leading content providers such as **Zhejiang Huace**.

Although the company reported preliminary 2018 earnings which was far below investors' expectations due to the unexpected decrease of drama prices in 4Q19, we expect results to improve in the next few years as the company improves the quality of dramas, manage risks in its sales process, and better control production costs. The stock is undervalued at 22x 2019E P/E, as Huace deserves a valuation premium due to its strong franchise in drama production, a unique industrialized production system supported by its big data capabilities, and a competent management team.

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Shin-Etsu Chemical is a leading Japanese chemicals firm that supplies many highly competitive products such as PVC, semiconductor silicon, silicone, rare earth magnets, and more. It is a global leader by market share for the PVC and semiconductor silicon segments, which are also highly profitable. The company is also very competitive in the silicone and Electronic & Functional Materials segments. Currently the stock is trading at 15x 2018E P/E, which is the lowest end of the stock's 2-year trading range. Many investors seem to be pricing in an earnings peak for the company on a shrinking PVC resin spread and slowing semiconductor silicon wafer demand. We disagree, and established a new position in this stock.

RECENT EXITS

We exited our position in the H shares of **Ping An Insurance** and locked in profits as valuations outran fundamentals, which remain solid. Its life and health insurance business is trading at roughly 1.4x 2019E EVPS, and 1.5x 2019E EVPS should morbidity and loss ratios deteriorate. This valuation leaves us with an inadequate margin of safety.

Our short position in **Japan's largest pharmacy chain** and it is focus on building or acquiring pharmacies right outside a doctor's office has benefited from the government's generous healthcare policy over the past decade. However, the government has shifted its focus to containing healthcare spending, and the revision in pharmacy reimbursement policy for fiscal 2018 included material price cuts for the company's cherry-picking business model. The company's operating profit this year for 9 months was down 16%, compared to 16% growth on average over the past four years. Since our investment thesis has fully played out, we decided to exit our position.

Nihon Trim is a leading provider of electrolyzed reduction water purifiers in Japan. Since we invested near the bottom of the stock's price in May 2017, the stock price has risen by 50%. We decided to take profit as the current valuation reached 30x 2019E P/E, and upside is limited in the short term. We continue to watch for more attractive valuations.

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Unless otherwise stated, all information is as of 31st March 2019 and sourced internally from APS

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