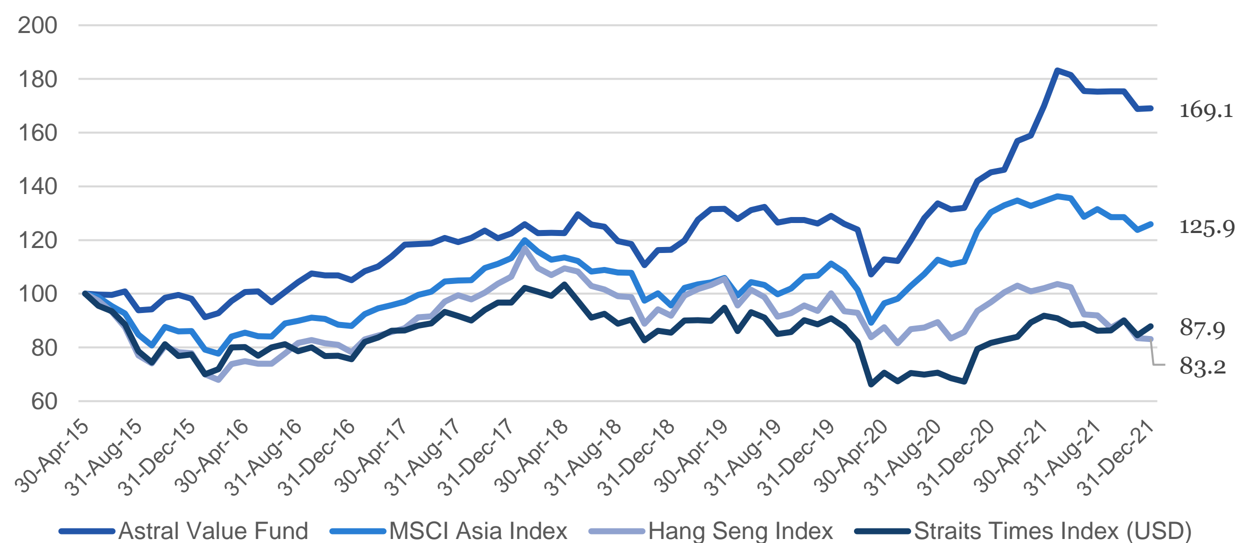
PERFORMANCE COMPARISON

	Astral Value Fund*	MSCI Asia Index	Hang Seng Index	Straits Times Index (USD**)
2021	16.5%	-3.4%	-14.1%	7.7%
2020	12.5%	17.1%	-3.4%	-10.2%
2019	10.9%	16.3%	9.1%	6.3%
2018	-4.9%	-15.6%	-13.6%	-11.6%
2017	16.5%	28.7%	36.0%	27.9%
2016	7.0%	2.3%	0.4%	-2.3%
May-Dec 2015	-1.8%	-14.0%	-22.1%	-22.6%
Returns since Inception	69.1%	25.9%	-16.8%	-12.1%
Outperformance		43.2%	85.9%	81.2%
Annualised Returns	8.2%	3.5%	-2.7%	-1.9%

*Returns are net of fees.
**STI Index was rebased using month-end exchange rate.

US$100 INVESTED INTO OUR FUND VS THE INDICES



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2021 NEWSLETTER

Dear Partners,

In 2021, our NAV grew from 145.2 to 169.1 for a full year gain of 16.5%.

This is the third consecutive year that we have achieved double-digit returns for our fund. In comparison, the Hang Seng Index and Straits Times Index returned -8.5% and 2.8% respectively over the last 3 years.

From our inception on 1st May 2015 till now, we have returned 69.1% for our investors, which translates to an annualised return of 8.2%. Over the same period, the MSCI Asia, Hang Seng and Straits Times Index have cumulatively returned 25.9%, -16.8% and -12.1%% respectively.

2021 is best summed up as a year of 2 halves as our portfolio rallied 26% from January to May 2021 before succumbing to the broad market sell-off in the latter half of the year. Nevertheless, we were treated to a glimpse of how well our portfolio could perform when value stocks seemed to return to favour during the first half of 2021. During the market downturn in the latter part of the year, we were heartened that our decline was much more modest compared to our reference markets. From June to December, the Hang Seng Index representing our main market was down 19.7% while we were down 7.7%.

Our goal remains the same. We target to generate above the market returns in the long run with less risk. Putting it in figures, we believe compounding at above 8% per annum to be a worthwhile goal for our endeavours. Our aim translates into 3 yearly goals:

1. Achieve a higher NAV than previous year, preferably by at least 8%.
2. Beat the market whether it is up or down.
3. As far as possible, minimise downside volatility and reduce drawdowns for our investors.

This year we have achieved our long term and annual goals. Besides delivering on our yearly goals, our compounded annualised return since inception now stands at 8.2% per annum. Normally, our performance this year should be a cause for celebration. However, we are cognizant that some investors who recently invested into our fund in the second half of the 2021 are currently under water. Rest assured that we will strive to ensure that we will achieve our targeted 8% annualised return over time.

Since the commencement of our fund, our approach to achieving our goals has always been value investing. In our opinion, this approach is timeless and offers the best way for us to attain our target.

> *While some might mistakenly consider value investing a mechanical tool for identifying bargains, it is actually a comprehensive investment philosophy that emphasizes the need to perform in-depth fundamental analysis, pursue long-term investment results, limit risk, and resist crowd psychology.*
>
> *-- Seth Klarman*

Our View of the World Now

COVID-19

We ended 2020 thinking that the worst of COVID-19 was behind us with vaccines hailed as a panacea to the pandemic. A year on, two new variants of the same virus, Delta and Omicron, have tempered that optimism. Contrary to fears that we would be stuck in a perpetual vicious cycle of COVID lockdowns and opening up, we see progress in combating the virus. It is our opinion that the world has a reached the endemic stage, where we are learning to live with the virus.

Markets react the worst to unknowns. In contrast to the initial period in early months of 2020 when panic-stricken fear engulfed everyone due to lack of knowledge on how to combat the virus, many are now taking the new variants into their stride. Businesses have started to incorporate COVID disruptions into their operations and are much more resilient. We are slowly but surely learning how to live with COVID, one way or another. In a sense, this type of situation works best for long-term value investors like us. We can sit through all the noises as our eyes are fixed on the final prize. As opposed to thinking how the business would fare in the following 3-6 months due to COVID measures, we are asking ourselves whether the price of a business today reflects the possibility of recovery even if it takes 3-4 years to recover to pre-COVID levels. If the stock price is trading way below that level with a huge safety margin, it is a potential buy for us.

Inflation

In last year's letter, we warned that inflation was brewing in the background and in 2021, markets started to take notice of this with the gradual opening of economies. Commodities prices surged as demand returned. The return in demand was worrisome for many businesses as they belatedly discovered that, besides raw materials, supply chains were severely disrupted. There have been increased waiting times in ports due to a lack of workers and chronic underinvestment in shipping capacity. The supply chain disruption has led to a huge rise in logistics costs, which are still at a stage of being passed on to consumers.

Another factor that has exacerbated inflation was the intensity of the Green movement. We were somewhat surprised that world leaders, normally concerned with only economic growth, were finally waking up to an existential crisis caused by climate change. However, this sudden, enthusiastic wholesale shift to alternative energy might turn out to be rather costly for the world, at least in the short term. The lack of investment in upstream activities in the last two years, coupled with investors forcing oil majors to cut back on their upstream investment in fossil fuels have resulted in a bigger squeeze than expected on energy costs. A counter argument could be made that with COVID-19 curtailing many economic activities and China slowing down, oil prices' rapid ascent will stabilise at, or even decline from, current levels.

Nobody can say for sure how this sudden energy transition will pan out. Our view though is that the possibility of an oil shock is high as the magnitude of energy transition and the immature energy storage cum grid connectivity of alternative energy sources may lead to some near-term problems when oil demand returns. According to the International Energy Agency (IEA), 2021 recorded a rebound in global oil demand of 5.4 million barrels per day, or 6% above 2020 levels. IEA noted that despite the rebound, demand across 2021 is expected to remain 3.2% below 2019 levels. This is due to sluggish international aviation oil demand which is still at 80% pre-COVID levels. However, it is our view that there is significant pent-up demand for overseas traveling and once it is safe to travel as before, the growth in travel demand will significantly increase compared to pre-COVID levels. If we add in the increase in domestic travel and business activity should COVID subside, the overall increase in demand for oil could be significant. With limited oil supply due to pressure from the Green movement and a potentially strong rise in demand, we believe that some positioning in some traditional fossil producers might be relevant as a hedge in the case of rampant inflation.

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China – "Common Prosperity" & China Property

When President Xi first reiterated the importance of "Common Prosperity" during the Communist Party's Central Party School in January 2021, not many took notice. By June though, Common Prosperity had become a buzzword for investing in China. The Chinese Government took aim at several key sectors, notably tackling monopolistic behaviors of large tech companies, nationalizing K1-K9 school education, and banning after-school private tuition. Luxury sectors or products which encouraged excessive flaunting of wealth were also frowned upon. Adding to the above, there was a continued crackdown on property developers who relied heavily on leverage. The impact on the real estate sector, a key plank of the economy, is worthy of a further discussion but let us first focus on "Common Prosperity."

Common Prosperity

Western commentators have framed the movement as "robbing the rich to give to the poor" initially. Other media have labeled it as China moving away from free markets and back to socialism. It is our view that we should try to understand the reasons and context for China's move towards "Common Prosperity" before concluding whether it is a U-turn in policy.

Well, it's natural for people to think their own civilization and their own nation are better than everybody else. But everybody can't be better than everybody else.

You're right. China's economic record among the big nations is the best that ever existed in the history of the world. And that's very interesting.

A lot of people assume that since England led the Industrial Revolution and had free speech early that free speech is required to have a booming economy as prescribed by Adam Smith. But the Chinese have proved that you don't need free speech to have a wonderful economy. They just copied Adam Smith and left out the free speech and it worked fine for them.

As a matter of fact, it's not clear to me that China would have done better if they'd copied every aspect of English civilization. I think they would have come out worse because their position was so dire and the poverty was so extreme, they needed very extreme methods to get out of the fix they were in. So I think what China has done was probably right for China and that we

shouldn't be so pompous as to be telling the Chinese they ought to behave like us because we like ourselves and our system.

It's entirely possible that our system is right for us and their system is right for them.

Charlie Munger

In 1978, when Deng Xiaoping regained power, he pursued an open-door policy, whereby economic growth was prioritized through opening the doors to foreign capital and expertise. The reason for this policy shift was because the then state of the country was in abject poverty after the Cultural Revolution. Deng realized that unless the Communist Party improved the livelihood the people, their continued rule would be in question. In the same vein, the rationale for the "Common Prosperity" movement could be found in the same Xi's speech in January 2021. The key point President Xi mentioned about common prosperity is that it is not an economic issue but also a political issue, central to the continued rule of the Communist Party (CCP).

Since the reforms promulgated by Deng, China went through decades of breakneck economic growth. Even at the turn of the century, China was still experiencing above 6% GDP growth. However, the country has had to adapt to a slower GDP growth range of 4-6% in the last 2 years. In addition, the country is now seeing a rapidly ageing population. During the good years, the high annual GDP growth was a rising tide that lifted all boats. China enjoyed stunning economic success with living standards improving dramatically for everyone. However, with growth slowing down rapidly in the last two years, there is growing recognition that not all have benefited proportionately from the country's rise. Wealth is concentrated in the hands of few, and this has stirred up discontent among the rest of the population. Meanwhile large companies have used their size to create walled gardens and deny competition. To make things worse, personal data protection is almost non-existent as large corporations peddle this information to other businesses for additional revenue. The lack of competition is detrimental to the continued innovation of the country while privacy issues further anger the general population.

Another reason for Common Prosperity is to partially alleviate the problem of the country's rapidly greying population. While the country had ended its one child policy, birth rates have continued declining. Similar to other major economies, high housing and educational costs in China have deterred people from having children in recent years. Private education costs, in particular, have been doubling every few years, making parents hold off having children as they are afraid of the cost of bringing up children. The intense competition in early education has contributed to child burn-outs and spawned excessively unhealthy behavior. Some adults who had suffered from extreme stress when young are now shunning the rat race completely and choosing to embrace the attitude of "Lying Flat", which literally means not doing anything in protest of the rat race. Should this movement take root, it would be even more detrimental for the society as the country is already in need of more productive labour.

Allowing a select few dominant companies to reap the most of the nation's wealth, and not tackling the greying population would lead to economic stagnation and discontent among the rest of the population. This would threaten the continued rule of the CCP, which was not democratically elected. Therefore, the roots of Xi's

Common Prosperity philosophy were similar to the starting point of Deng Xiaoping's opening up policy, which was to ensure that the majority of the people remained contented and continued to support the CCP.

China property sector

In our earlier letters in December 2016, we had talked about how we have steered clear of the China property sector in our portfolio due to excessive leverage. Since then, the reliance on leverage has continued among all the major Chinese property firms and many of the companies have now morphed into debt monsters. Not only is debt present on the developers' balance sheets, many accounting chicanery were used by developers to hide off-balance sheet financing. Housing activity accounts for close to 30% of China's GDP and is a key store of wealth for people in the country. Credit must thus be given to the Chinese authorities for finally facing this issue head on and trying to engineer a soft landing even though it will not be easy. The clampdown started in late 2020 with the 'three red lines' and, subsequently, a continuous clampdown on various debt loopholes used by developers. Many developers are now staring at a huge liquidity crunch. The MSCI China Real Estate Index returned -30% in 2021, after returning -14% the previous year.

Whether China can survive this bout of deleveraging or crash like the 2009 US sub-prime crisis is anyone's guess. After all, no major economy has ever been able to achieve a soft landing in property. If there is a property crash, it is inevitable that the pain will spread to the rest of the market given the sizeable nature of property in the economy. China's advantage is that the government can be decisive in their decision making with the control they have over the legal and political system. The playbook from previous crises, such as loosening credit to genuine buyers and taking over troubled developers and restructuring their debt, can soothe the nerves of property buyers. Ultimately, we believe a gentle decline of prices could be achieved without collateral damage to the overall economy. This belief is based on the ability of the Chinese government to control supply and the continued strong underlying demand from growing urbanisation.

Demand for homes in China remains very strong in many 1st and 2nd tier cities, especially for affordable housing. In Chinese culture, owning a home continues to be an aspiration for the young. However, in recent years, housing prices have become unaffordable. A significant price correction would see many on the sidelines snap up properties. On the supply side, China controls both the banks and the land supply. The ability to control supply should not be underestimated. Whilst it is true that not many countries have been able to engineer a soft landing in property prices, we look no further from our vantage point in Singapore. Since 2009, Singapore has managed to control the pricing of homes simply by regulating the supply of land. When demand was lacklustre in 2009, more GLS land was released. Then, as prices started to rise, the supply of land was reduced. When developers became more bullish and started riding on the en-bloc wave, cooling measures were introduced and more land were released. The result is a flat to low single digit increase in private property prices from 2010 to 2020. We believe China is going to use a similar strategy - controlling the supply of land in order to stabilise property prices. However, the country is much bigger and to be able to achieve a soft landing would require much more skill from the central bankers.

Conclusion

Common Prosperity and property correction may lead to some short-term pain for the economy and markets, but we are optimistic about the long-term effect of the measures taken. It will lead to a healthier economy which allows more innovation and better living standards for the middle class. From our perspective at Astral, Common Prosperity and lower property prices works in our favour because it favours the masses. Common Prosperity aims to lift the incomes and wealth of the middle income in the society. Together with lower property prices, the measures will increase the middle class's desire and propensity to spend. Since our fund's inception, we have been fans of an exponential rise in demand from the middle class.

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We were not unaffected by Common Prosperity. In June 2021, we thought that it was virtually impossible for the Chinese government to kill off private education in compulsory K1-K9 education as educational resources were scarce in China. Thus, we underestimated the determination of the Chinese government to restructure the education system and one of our investments was hit rather badly. Once we understood that the Chinese government was serious, we cut our losses and put the money to work in other investment opportunities. Moving forward, we will pay greater attention to the socialist forces in investing. In the case of investing in China, paying attention to government policies and whether the business is serving the greater good of the society is just as important as the fundamentals of the company.

Portfolio Valuation

At Astral, one of our key anchors is valuation. We disclose our portfolio valuation annually. As we consistently apply the same investment principles, this information gives a rough sense of how our fund stands in terms of valuation historically. Since our inception, we have been upbeat on the performance of our portfolio as valuation levels were below historical levels of indices. Turns out that low can go lower.

One of the key determinants of valuation is the overall sentiment of the market, which deteriorated for China markets due to COVID-19 re-infection waves and the highly uncertain regulatory environment in China. Partly reflecting the negative sentiment, our portfolio valuation as at 31st Dec 21 is at an all-time low. This is despite us being up more than 16% this year. Throughout 2021, we have continually worked hard to scour even better bargains. Our game plan is to continually to look at companies in this difficult environment and invest in the best risk reward type of companies. We have structured and diversified our portfolio to own outstanding businesses, ran by capable managers, that can withstand tough operating conditions.

The bottom line is that we believe that the year ahead could be one of the vintage years of our portfolio given the historically low valuation of our portfolio.

> *"One of the most important aspects of being a good investor is you try to set things up so that if things go your way, you do great. But if things don't go your way, you still do okay."*
>
> *Howard Marks*

Date	P/B	EV/EBITDA
31 Dec 21	0.68x	4.1x
31 Dec 20	0.68x	6.6x
31 Dec 19	0.88x	5.9x
31 Dec 18	0.56x	4.3x
31 Dec 17	1.12x	6.6x
31 Dec 16	1.08x	6.6x
31 Dec 15	0.88x	7.3x

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Portfolio Snippets

In the following section, we will discuss certain investments past and present to showcase our investment process. Note that this is not investment advice.

QAF (QAF SP)

QAF was a holding we held for the last 3 years. The thesis was that the sale of the primary production arm would unlock value of the packaged bread business and the market will subsequently re-rate the remaining company. While this part of our thesis materialised with the sale of the primary production arm, we have decided to exit our holdings.

The main reason is that wheat cost, the main raw material of the bakery businesses, has risen significantly in the last 1 year. The second reason is that we have perhaps over-estimated the continued growth in sales of the bread. The huge rise in sales in 2020 were contributed in large part by lockdowns in the countries the company was operating in. With a gradual easing of lockdowns, we have noticed that sales have declined slightly. Hence the company could be in a challenging situation where sales decline and margins are being squeezed. Whilst we still feel that returns can still be made by being patient, we have decided to deploy capital in opportunities elsewhere which potentially can give us higher returns.

China Unicom (762 HK)

We continue to hold and added on to our position over the last one year. Stay tuned!

Hutchison Port (HPHT SP)

Background

Hutchison Port is an operator of ports with interest in ports in Yantian, Shenzhen and Hong Kong. As a leading port operator in Greater China region, its listing in Singapore as a business trust in 2011 was greeted with much fanfare. However, after its listing, the share price went down in one direction. The reasons for the share price fall were manifold. Chiefly, the IPO was priced at the top with rich valuation and significant leverage piled on to the business trust. Subsequent to the IPO, the port business in China entered a correction stage as other ports in China started to take business from Shenzhen. Volumes stopped growing and the manager decided to cut distributions to reduce debt servicing with the threat of rising interest rates. The price decline cumulated with the trade war in 2018 where US tariffs caused port volumes to decline significantly. Just when volumes stabalised from the trade war, the coronavirus sent port volumes down south temporarily. From the listing price of US$1.01 in 2011, it steadily went downwards over the years and ultimately bottoming at US$0.087 in March 2020. Investors at IPO would have lost more than 90% of their capital. Even including dividends, investors would be staring at a loss of 70%.

Investment thesis

We had always felt that a well-located port is a good business as if the conditions are right, volumes will keep rising. With strong operational leverage, increase revenue from containers handled or port fees will drop straight to the bottomline. We do have to differentiate between a good stock and a good business. A good business though may not be a good stock if the valuation is too high. At IPO, we felt that the business trust was saddled with too much debt and priced to perfection. We kept one eye on the company as the price declined over the years.

Even though the external environment was challenging with more competition and trade war, the management took a number of good corporate actions over the years such as committing to reduce gearing temporarily for a

few years in exchange for a reduced distribution to shareholders. Such actions are good for long term but short-term negative for the share price. We finally invested in the company during July 2020 at the 0.105 average price on news of port volumes recovering. We have held still since then and have selectively added on to our holdings during dips in 2021. It is our view that the worse is over and dividends will increase from this year onwards due to increased volumes and port fees. In addition, its 5-year debt repayment plan is almost coming to an end. While the management has indicated they will continue to pay down some debt as a form of capital discipline, we expect the magnitude to be much lower than previous years, leaving room for more dividends. We have a case of a company with improved operations, improved earnings, lower debt servicing commitments and high likelihood of increased dividends. At current price of 0.23 (Yes, we have already made more than 100% on the stock, but it doesn't mean you have to sell), it is still trading at a dividend yield in excess of 7%. We expect both the dividends and price to appreciate over time for this income situation.

Acknowledgement

We are once again grateful that you have chosen us as stewards of your capital. While we can never guarantee returns, our promise to you, our partners, is to do our utmost to protect and grow this capital over time.

Best wishes for the year ahead!

Lee Kian Soon & Sean Mah

Fund Information

Fund Name	Astral Value Fund	
Bloomberg Ticker	ASTRALV KY Equity	
ISIN	KYG059281090	
Base Currency	USD	
Fund Manager	Astral Asset Management	
Jurisdiction	Cayman Islands	
Share Class	A	B*
Subscription Charge	1.0%	Waived
Management Fee	1.5% p.a.	1.2% p.a.
Performance Fee	15%	12%
Early Redemption Charge	3% in Year 1	3% in Year 1, 2% in Year 2, 1% in Year 3
Redemption Charge	1%	
High Watermark	Yes	
Fund Administrator	Apex Fund Services Singapore Pte Ltd	
Fund Custodian	DBS Bank Ltd.	
Fund Auditor	Deloitte	

*Limited Capacity