ASTRAL VALUE FUND

DEC 2015

2015	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Inception to date
Astral (Class B)	-0.27%	-0.16%	1.33%	-6.98%	0.42%	4.60%	1.01%	-1.40%	-1.83%
ASIAD*	-1.26%	-3.39%	-2.90%	-8.51%	-4.72%	8.59%	-1.99%	0.14%	-7.50%
HSI	-2.52%	-4.28%	-6.15%	-12.04%	-3.80%	8.60%	-2.84%	-0.37%	-22.10%
FSSTI (USD)**	-4.55%	-2.17%	-5.30%	-11.66%	-5.21%	8.92%	-5.44%	0.70%	-22.60%

*ASIAD refers to the Bloomberg Asia Developed Markets Large & Mid Cap Index

**STI was rebased to USD using the month-end USD-SGD exchange rate

INVESTMENT OBJECTIVES

Astral Value Fund is a long-biased fund that aims to offer investors exposure to Asian markets equity returns with lesser risks through a disciplined approach to investing in mispriced situations.

FUND INFORMATION

Fund Manager	Astral Asset Management	
Currency		USD
Jurisdiction		Cayman Islands
Share Class	A	B
Management Fee	1.5%p.a.	1.2%p.a.
Performance Fee	15%	12%
Early Redemption Fee	3% Year 1 1% Year 2 1% Year 3	3% Year 1 2% Year 2 1% Year 3
High Watermark		Yes
Dealing Frequency		Monthly
Redemption Frequency		Monthly
Fund Admin		APEX Fund Services
Custodian		DBS Bank
Fund Auditor		Deloitte
Legal Advisors		Rodyk (Singapore) Walkers (Cayman)
Bloomberg		ASTRALV KY Equity

Dear Partners and Friends,

We ended the year down by 1.4% in December and 1.8% since our fund's inception. Meanwhile, the broader markets are down 24% in Singapore (FSSTI) in USD terms and 22% in Hong Kong (HSI).

In December, both our equity and bond assets in our portfolio faced significant selling pressure. We had expected the year-end equity portfolio rebalancing and noted many portfolio managers of large equity funds continued to exit mid and small capitalization stocks in order to meet their redemption requests. This is due mainly to the negative performance of the regional markets in the past six months. The growing concern on the China's economy slowdown as well as the price volatility in the commodity and currency space have also triggered the flight-to-safety mindsets for many typical risk-averse investors. In specific situations when this form of selling were conducted for non-business related reasons, they presented us with a valuable buying opportunity and we added to our portfolio.

Our bond portfolio has suffered from the abrupt RMB depreciation which resulted in an unrealized mark-to-market loss and also an exchange loss for the RMB-denominated bonds in our portfolio. We have reduced our exposure to the high yielding RMB bonds to less than 6% in the portfolio, consisting solely of good credit and short-term maturity bonds.

As at year end, we maintained an investment level of 81% which consists of 10% bonds and 71% equities.

We maintain cautiously bullish on the year ahead as we find that valuations are becoming more appealing given that the pessimism on the regional bourses is approaching a high level.

Do read on for our annual newsletter.

Yours Sincerely,
Astral Asset Management

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YEARLY COMMENTARY

Dear Partners and Friends,

It has been an eventful half year since our last commentary. During this time, equities markets in Asia corrected significantly from the euphoria in the first half 2015, with concerns over China weighing heavily on the minds of all investors. Asset prices of Asian companies with dubious business model corrected significantly as their valuations were swept up previously by expectations of never ending growth. In addition, many investors who utilised leverage in order to juice up their returns were caught out by this sudden change of tide.

"When the tide comes up,

then you know who is swimming naked."

Warren Buffet

Our report card

We are pleased to report that Astral has managed to navigate through this difficult period as we stuck to our strategy of putting capital at risk only if the reward warrants it. In the last six months, our fund was down 1.8% whereas the broader market was down by more than 20% in USD terms. We were heartened that during this difficult period, our initial AUM doubled with the support of new and follow on subscriptions. Since the inception of Astral Fund, we are grateful that 14 partners have come on board.

Beyond the performance, it is easy to forget that as a new fund, we initially faced many operational issues such as improving our existing research database, cultivating broker relationship, ensuring efficient and cost effective trade settlement and fund administration. Nevertheless, after investing significant time over the last six months, we are glad to report that we have established a strong base of support from our service providers and ironed out all operational kinks. This provides a solid platform for us to focus on high, sustainable investment return for our partners.

Our goal and strategy

For the benefit of new readers to our newsletter, our goal for our partners is to build sustainable wealth by beating the long run equity market return of Asian markets whilst at the same time ensuring return is as absolute as possible.

To achieve our aim of we are structured as a generalist equity long biased fund using a bottom-up strategy, investing in a portfolio of diversified asymmetrical risk reward situations with mostly unlevered and excess capital in most times. Even though most of the time we are neither fully invested nor leveraged, we are confident of beating markets in the long term and hence, we compare ourselves to 100% invested indices and funds.

How are we different

Our prior experience in allocating funds in a family office made us realize that, in general, investors are risk adverse. Most investors can tolerate less gain when markets are doing well but cannot endure big losses when markets are down. Whilst as managers we have conditioned ourselves to be immune to temporal unrealized losses, we understand investors may not have the same conviction as they do not possess the same information as us. Hence, the tendency is for investors to focus on the periodic marked-to-market NAV. Therefore, in order not to have large drawdowns, our investment strategy is structured to be more defensive than attacking. We tend to lose less during a market downturn and try to keep pace when markets are performing well.

If you don't lose money,

most of the other alternatives are good.

Working in a family office previously required us to do both the asset allocation and the actual investing which led us to realize the advantage we have over traditional asset allocation. Conventional asset allocation requires one to be either an astute asset allocator investing into different asset classes at opportune time or decide a fixed percentage balanced fund which is 100% invested. Proponents of this method argue that separation of the asset allocator and the fund manager of a certain asset class is optimal as the asset allocator is detached and thus able to allocate better as he avoids biases in asset allocation.

However, over time we realized whilst asset allocation is important, it is only when you know what you are investing that ensures your investment can generate return. The ability to allocate various asset classes to us is a key advantage as knowing the various asset classes well enough would allow us to know when to invest or avoid it. We are most of the time equity long bias but we have invested long enough to know no asset class *ALWAYS* gives you safe and guaranteed returns to fight inflation. To us, apart from the investing knowledge, the most important things are actually to be courageous, intellectually honest and patient.

We believe we can beat pure equity indices over time simply by losing less and trying to match index returns when times are good. This requires us to invest only if we can achieve outsized returns with less risk. In our experience of equity markets, the six situations of Sustainable High Income, Franchise, Fast Growers, Turnarounds, Deep Value and Special Situations would allow us to gain outsized returns.

The nature of these situations means that most of our portfolio are concentrated on stocks which are non-index stocks most of the time. This is not something counterintuitive as the way to beat the index is to either select the outperformers in the index or find even better stocks outside of the index. We choose the latter because the former requires us to out-fox and out-think hundreds of highly talented analysts and fund managers. We prefer the less crowded, low hanging fruit arena using our deep knowledge and rich network of information obtained from our contacts built up over time.

Many of the situations work out over different time and our diversification over 40-60 situations serves to make our fund an evergreen one. Some situations like Turnarounds and Special Situations operate independent of the market if we get it right. (Read on further for a turnaround feature on Pou Sheng and how it fared over the last six months in the midst of a flight to safety) Other situations like

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Franchise, Deep Value and High Income tend to do as well as the market and crucially hold up really well in market downturns. Fast growers tends to get hit the most in our portfolio when sentiment is negative but it rallies furiously when market is doing well.

Whichever situation we invest, the risk reward is very important. We only invest where the gain is outsized! If we are right, the potential gain more than makes up for the potential risk of loss. The best example is to look at our fund since inception. Our portfolio as at year end has 60% decliners vs 40% advancers at its invested cost, and yet our gross return is almost flat. The difference is that our winners have been home runs.

If you wish to take risk, make sure its worth it!

Part of the reason why we are not fully invested is to always maintain some form of liquidity in our fund for our partners as we understand that life's bills do not always come at the top for our investors and contingencies do occur from time to time. Secondly, at the initial stage of our fund establishment, incoming funds from add-on and new investors also mean we have additional cash on a monthly basis. Furthermore, there are many occasions where assets are mispriced on a temporary basis and hence providing a golden opportunity for those with cash on hand. Even though liquidity is maintained all the time, we stress that successful investments require time, which is why new potential investors have to note that initial capital have a lock-up of 3 years.

No matter how great the talent or efforts, some things just take time. You can't produce a baby in one month by getting nine women pregnant.

Warren Buffet

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Investment Situation Showcase

What you are about to read should not be taken as investment advice but is a way of explaining our investment process for a certain investment situation of our fund. Below we present an example of a turnaround situation which performed well in spite of the down draft in equity markets during the last six months. It was unfortunate that the stock began to rally before we managed to have our usual position size, thus dampening our return.

Background

Pou Sheng is the second largest sportswear retail outlet in China after Belle and is also one of the 4 key distributors of Nike and Adidas sportswear in China. Since 2008, the sportswear industry in China was suffering from overcapacity and excess inventory and many sportswear company were in dire straits. Pou Sheng saw its earnings declined to losses and also fell out of analysts radar and its share price fell from a peak of HK$3 to HK$0.30.

Investment Thesis

We followed the company since 2010 and at HKD0.30 in early 2014, it was trading well below what we believe was the replacement cost of its 4,000 outlets in China. We held conference calls with the management and they have explained that the overcapacity problem was easing and they have indicated that the industry is started to grow again. This improved outlook was corroborated with the outlook of many other sportswear brand owners and retailers listed in Hong Kong. Since 2H 2014, many sportswear companies have reported easing inventory problems and increased profits for the first time since 2008. Signs were everywhere that the company or rather the whole industry has recovered from over capacity problems. Management were turning positive in late 2014 but no one took notice as most investors was scarred by their previous experience in the sportswear boom and bust cycle.

In addition, we noted a trend from the various listed companies stating that as China's population becomes affluent, there is an increasing emphasis on sports as a healthy lifestyle, which has led to an increase in demand for sportswear. We believe there is some grain of truth to this and given the depressed valuation of Pou Sheng and the improving industry dynamics, we decided to invest into the company.

We invested in Pou Sheng in our previous fund at an average cost of HK$0.35 and subsequently the company consistently reported monthly growth of mid-teens comprising of high single digit same store sales growth and growth from new outlets opened. This double digit growth was in spite of the low consumer sentiment in general in China where many consumer related stocks reported negative same store sales growth.

At the initiation of our fund, we continued to stay invested at current price of HK$0.70 as we believe with the build-up to the Olympics in 2016 and China's increasingly health conscious populace, the demand for sportswear could continue to increase and the upside to this stock could be more. We also note that if the company can grow its sales and that were its margins and earnings to normalise at the similar levels of its nearest competitor, Belle, the price could trade higher. We thought that the future is still bright as the company benefits from the secular trend of rising sportswear consumption and top-tier sports brands like Nike and Adiddas is relying on 3-5 main distributors which limits new entrants. The company have also won the distributorship of new up and coming brands like UnderArmour and Skechers and have gone into multi-brand stores which will further increase operating efficiency.

How it turned out

The stock started to rally significantly from our fund launch due to several positive news such as continued double digit sales growth, management roadshows and initiation by sell side analysts such as Goldman Sachs, which made people stand up and pay attention to the stock.

Subsequently in January 2016, we exited the position as the company started reporting declining growth consecutively in November and December. We managed to make 110% on our initial position over our 7months holding period.

Outlook for 2016

We are bad predictors of market direction but we tend to think that a severe depression usually comes after a euphoric rally. The situation in the world is hardly bullish. Growth seems to be stalling for all major economies, except the US. Accordingly monetary policies remains easy as government around the world tries to jumpstart demand. In fact, there is much excess capacity in the world as evidenced by the low commodity prices due mainly to low global demand exacerbated by new supplies coming online from the previous boom. This situation is compounded by the rising interest rate of the Fed which will result in an increase in the cost of capital and force a decrease in asset prices. Rising rates in US coupled with more money printing in other major economies seems to suggest a continued strong US dollar, which further complicates the investing situation.

Our fund is intricately linked to Asia and China, and we expect some bumpy rides for the year ahead due to the strong US dollar. We are however optimistic of the year ahead for partners of our fund. Our optimism stems from the fact that we continue to find value in all spectrums of our 5 typical investment situations. We also retain significant cash to take advantage of continued weakness in markets.

At this current moment, our fund have a significant part of our portfolio invested in the situation which are franchise cum growth situation type of companies. These are situations which typically consist of reasonably priced, deep moat companies that will benefit from mega secular trends and is most resistant to market falls yet rallies strongly when sentiment turns. In addition, given the excess capacity in the world, we believe the brand owners who can maintain their selling prices and grow their volume whilst taking advantage of their lower cost would benefit the most. Accordingly we have invested significantly in such situations as well.

Over time, we believe that our results will speak for themselves. We are believers in the Chinese saying "真金不怕火烈", which literally means that gold is not afraid of being refined by fire. In the meantime before we can show our results, what we can do is to commit ourselves to working really hard and be as transparent and honest in our communication with our partners.

Once again we are deeply grateful by the amount of support given by our intial partners and we welcome potential partners to contact us at kslee@astralam.com for more information.

Sincerely,

Astral Asset Management

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