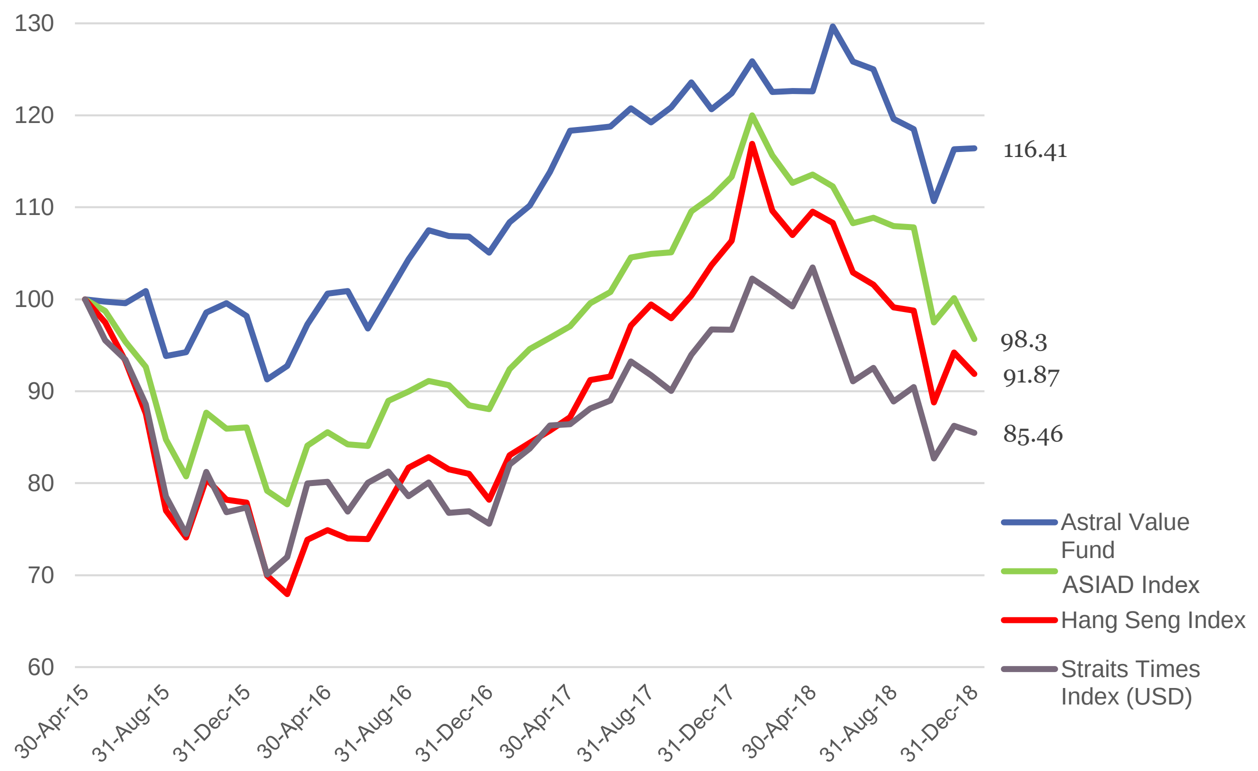
ASTRAL VALUE FUND

PERFORMANCE COMPARISON

	Astral Value Fund*	ASIAD Index**	Hang Seng Index	Straits Times Index (USD***)
May-Dec 2015	-1.8%	-7.5%	-22.1%	-22.6%
2016	7.0%	0.1%	0.4%	-2.3%
2017	16.5%	23.6%	36.0%	27.9%
2018	-4.9%	-14.1%	-13.6%	-11.6%
Returns since Inception	16.4%	-4.3%	-8.1%	-14.5%
Performance vs Indices		+20.7%	+24.5%	+30.9%
Annualised Returns	4.2%	-0.5%	-2.3%	-4.2%

*Returns are net of all fees.
**ASIAD Index refers to the Bloomberg Asia Developed Markets Large & Mid Cap Index
***STI Index was rebased using month-end exchange rate.

US$100 INVESTED INTO OUR FUND VS THE INDICES



Note: Our fund is only open to “accredited investors” as defined by the Monetary Authority of Singapore

FULL YEAR COMMENTARY

Dear Partners and Friends,

2018 was a year full of challenges for capital markets. Despite our best efforts, we were not able to return a positive return for the year. Even though our reference indices went much deeper into negative territory, 2018 remains for us and our investors a missed opportunity to compound our wealth. What was more instructive was that we stood a good chance of making positive returns for the year had we been more disciplined in realising our gains. Still, we have internalised the lessons learnt during the year and the experience will help us down the road. In our opinion, value investing remains for us the only investing style that will age like fine wine, which is probably why the greatest investor of our times is still using this approach at 88 years old.

What We Have Learnt

As bottom-up value investors, we are generally less attuned to changes in macro environment. However as global financial markets become more and more intertwined, we do have to pay more attention to major changes in the operating environment which can affect our companies. The much talked-about trade war in 2018 is a case in point.

When US started signalling in early 2018 that the country would stand up to unfair trade practices in China, we were initially sceptical on how far the US would be willing to push the envelope. Our doubts were mainly due to the vastly different political environments in both countries. In China, the political environment is generally thought to have more certainty due to Xi Jinping's iron grip on power. This stable environment was a stark contrast with the constant jockeying of positions in the fluid US political environment. Hence the logical conclusion was that US would blink first.

Turns out that, if taken too far, the oppressed would bite back. Just look at how the Malaysians voted out the long ruling UMNO party at the recent elections after the 1MDB scandal! China had been given favourable terms when they first entered WTO in 2000. They had made use of the concessions to protect key industries and used their low-cost advantage to develop rapidly. Their transformation from a developing country to a world power has certainly made other world powers, especially the US, very uncomfortable. Xi Jinping's recent ditching of Deng Xiaoping's policy of "hide your strength and bide your time" to declare China's arrival on the world stage and openly declaring a "Made in China 2025" goal to make China a world power, ruffled many feathers in the US. Many in the US felt that China continued to enjoy the privileges of a protected developing country and used it to create an unfair advantage for domestic companies. For instance, China till this day continues to close off sensitive sectors such as banking or technology sectors to other countries and forces foreign companies to transfer their technology and knowhow if these companies wish to access the China market.

In the initial stages of the announcement of the trade war, we had believed self-interest would propel many global corporates to take the lobbying lead to get the US government to soften their tough positions. This was because many of the top global companies have substantial cost or profit centres in China and are likely to feel the pain of substantial tariffs. We read this wrongly and it was only till the initial tariffs were enacted that we wised up to the fact that most of the American CEOs were in favour of Trump's hardball policies towards China. These CEOs were tired of what they perceived, and rightly so, as an unfair playing field disadvantaging them.

This epiphany hit us only later in the year when sentiment had worsened considerably, and we suffered significant losses in July and August. However, it was a case of better late than never, as we decisively cut our positioning in exporters. The rationale is very simple. Even if the trade war were to cease today, any strategic

CEO of an exporting company from China to US would want to diversify part of their production out of China. This would mean a new heavy CAPEX cycle would ensue and lesser cash flows to reward patient shareholders like us.

In terms of company-specific calls, we had one of our worst stock calls tank on us in November 2018. Readers of our past letters would have recalled that we had predicted a challenging environment for dividend stocks in 2018, given the competition from less risky instruments such as corporate bonds and money market instruments, in a rising interest rate environment. We sold all except one income stock, Asian Pay Television ("APTT"). Turns out that if we had kept all other high-income companies and sold APTT, we might have done better.

APTT is a monopolistic cable TV provider in some parts of Taiwan. We had initially invested in the stock due to the strong local content TV-watching culture in the country. The key attraction of the stock was the mouth-watering dividend of above 10% most of the time we were invested. We kept in close contact with the management and were constantly reassured that their debt would not be a concern. Debt approached in excess of 10x its operating cash flows as the company steadily continued to increase their debt over the time of our investment. The irony that we were undone by high debt levels was not lost on us, especially when we pride ourselves as investors who abhor high debt. We were so attracted to the dividends that we neglected to pay attention to the business which was losing its profitability gradually as competition and cord cutting trends started reducing the company's cash flows. It culminated to a point when the company had to cut its dividend drastically to meet conditions for renewal of loans and the stock price plunged.

Given that many investors were in the stock due to dividends, it should not come as a surprise that the stock fell greatly after news that the company had decided to cut dividends by 80%. While we were quick to cut losses, the reality was that we had sat around for far too long, hoping for the best. We estimated the loss of investment, even after accounting for the fat dividends to be 45%. The bigger loss was the opportunity cost of capital as this was an investment since day 1 of our fund. The key takeaway for us is not to be blinded by dividends alone but rather fix our eyes on the business as, ultimately, the business is the one which will determine whether the dividends are sustainable.

Our View of the World Now

Reading commentaries of 2019 outlook suggest a more guarded outlook compared to the start of 2018 when talk was on synchronised recovery and the goldilocks economy. Optimism has been replaced with caution and a need to be prepared for volatile markets. Forecasters and economists are now predicting that economies of the world may have peaked in 2018.

Slowdown or Crash in China

Foremost on the minds of many investors in Asia is whether this is the "Minsky moment" for China. The past year saw China slowing down dramatically again after a brief recovery in 2017. There are several reasons for this negativity. The first is the trade war, as mentioned earlier.

The second less mentioned factor is the continued credit tightening in China and clampdown on shadow banking. Since the start of the year, credit has been tight for many private enterprises focused on old economy businesses as banks started to be selective. The clampdown on wealth management products, a rich source of redirecting loans to property and infrastructure firms, busted many old economy stocks. Moreover, a new threat emerged in recent years in the form of P2P-type lending that promised higher interest rates, which of course can only be sustained by investing in highly risky ventures. When the government turned their attention to this by requiring all P2P ventures to register and maintain a high minimum paid up capital, many essentially Ponzi P2P schemes went belly up or the companies simply vanished.

In the capital markets, the government had perhaps made a misstep by going after too many industries at one go, including the mobile gaming, pharmaceutical, education and even funeral services industries. All these reinforced the perception that there are substantial policy risks present in investing in China. Talk even surfaced from official sources suggesting that large successful private companies might become state-owned again, although this was quickly rubbished by senior leadership.

The combination of a trade war, heavy losses from credit tightening and regulatory uncertainties unnerved many investors and affected investor sentiment in the property and stock markets. In October, panic set in as many private enterprises were not able to roll over their loans. Coupled with the fall in equity markets, many listed company owners with the habit of pledging their shares were facing margin calls. Fortunately, they were given some grace period and many managed to top up their margins, which was why the sell down was less pronounced than 2 years back when those facing margin calls were mainly retail investors. The combination of all these negative events turned into a negative feedback loop which affected retail consumption in China. Many consumers held back on their purchases. As an example, China's car market contracted for the first time since 1990.

Fortunately, in November, there was some loosening in credit markets which allowed many companies to roll over their loans. In addition, there is now some progress in the negotiation between China and US for the trade war. The short-term goal for China is to end the trade war. We are of the view that some of the additional easing measures are being held back until a formal agreement can be concluded.

In the meantime, most investors we talked to were opting to stay defensive as markets continue to be uncertain with trade wars, softening economies and tightening credit. We continued to stay relatively fully invested as we believe that the uncertainties offer great opportunities for value investors to accelerate their wealth growing process.

A second argument is made that there are just too many question marks about the near future; wouldn't it be better to wait until things clear up a bit?

You know the prose: "Maintain buying reserves until current uncertainties are resolved," etc. Before reaching for that crutch, face up to two unpleasant facts:

1. *The future is never clear;*
2. *you pay a very high price in the stock market for a cheery consensus.*

Uncertainty actually is the friend of the buyer of long-term values.

-- Warren Buffett

Portfolio Valuation

Amidst the ever-changing macroeconomics and geo-political developments in 2018, our focus remains on doing the one thing within our control; build a portfolio of equities with solid business fundamentals and financial strength, with a significant margin of safety relative to their intrinsic value.

Both our approximate metrics for gauging how undervalued our portfolio is are now at all time lows.

The low price to book gives us confidence that the value of our portfolio is well backed by the balance sheet whereas the low EV/EBITDA tells us that cash flow returns will be attractive.

An additional information which we believe would be useful for investors are that debt to equity levels are at 17% which translates to an asset gearing level of less than 15%. This gives us confidence that our companies can pull through even if the credit environment deteriorates.

Date	P/B	EV/EBITDA
31 Dec 18	0.56x	4.3x
30 Jun 18	0.72x	5.1x
31 Dec 17	1.12x	6.6x
30 Jun 17	1.34x	7.4x
31 Dec 16	1.08x	6.6x
30 Jun 16	0.89x	7.0x
31 Dec 15	0.88x	7.3x
30 Jun 15	1.26x	9.0x

Acknowledgement

Since the start of our fund on 1st May 2015, Asian markets have been anaemic to say the least. Our analysis is that this lacklustre performance could be due to growing pains as China transitions its economy from an export- and infrastructure-driven economy to a service and consumer-led economy. This transition is coinciding with credit conditions tightening as central banks start to pull back on the record stimulus started long ago. We are extremely grateful for many of our investors who have placed their trust in us and have remained committed to a long-term horizon.

Despite most Asian markets returning negative returns during this period, we have been recording an annualised mid-single digit returns for our investors. This may fall short of the target of high single digits to low double-digit annualised return. Nevertheless, given the historically low valuation of our portfolio and market, we are quietly confident of achieving the promised rate of return in the coming years.

We welcome feedback and potential partners to contact us at enquiries@astralasset.com for more information.

Sincerely,

Astral Asset Management

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

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