ASTRAL VALUE FUND

PERFORMANCE COMPARISON

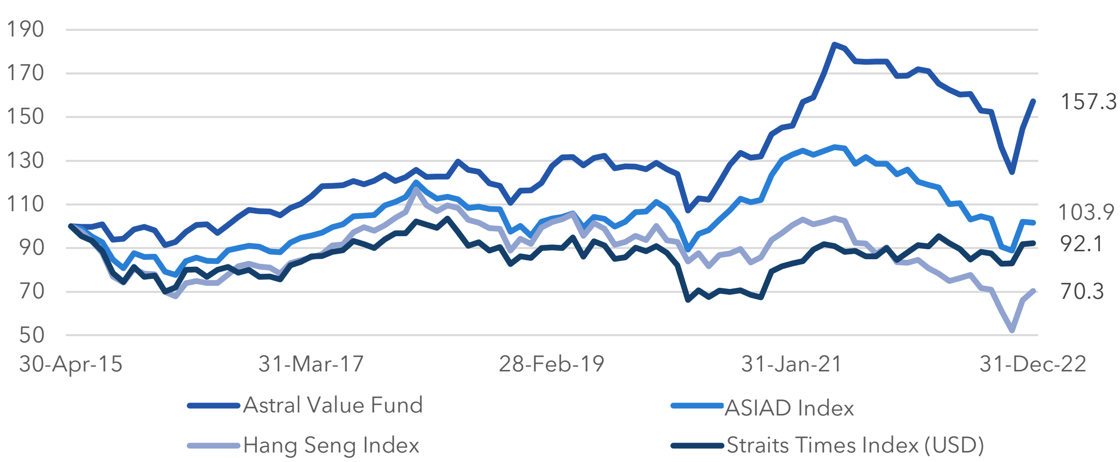
	Astral Value Fund*	ASIAD Index**	Hang Seng Index	Straits Times Index (USD***)
2022	-7.0%	-16.6%	-15.5%	4.8%
2021	16.5%	-0.6%	-14.1%	7.7%
2020	12.5%	10.1%	-3.4%	-10.2%
2019	10.9%	15.9%	9.1%	6.3%
2018	-4.9%	-14.1%	-13.6%	-11.6%
2017	16.5%	23.6%	36.0%	27.9%
2016	7.0%	0.1%	0.4%	-2.3%
May-Dec 2015	-1.8%	-7.5%	-22.1%	-22.6%
Returns since Inception	57.3%	3.9%	-29.7%	-7.9%
Outperformance		53.4%	86.9%	65.1%
Annualised Returns	6.1%	0.5%	-4.5%	-1.1%

*Returns are net of fees.

**ASIAD 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

2022 NEWSLETTER

Dear Partners,

Astral Value Fund's NAV declined by 7.0% during 2022. This translates to an annual compounded return of 6.1% since inception on 1st May 2015.

Our total return to our investors since our inception stands at 57%. This compares favourably to the Hang Seng Index and Straits Times Index which have returned -30% and -8% respectively over the same period.

2022 was a difficult year for investors across all asset classes. Specifically for equities, most major market indices globally tumbled between 10-30% in this year alone. Notably the Nasdaq was down 33%. The source of free-falling markets stem from consistently elevated inflation which forced the Federal Reserve to raise interest rates from almost zero to 4.25% within a year. While we had previously predicted inflation, the pace of the rate hikes did catch us by surprise. In addition, China's continued adherence to a zero-COVID strategy and, continued regulatory crackdown on key industries which started in 2021, put off many investors. Angst over zero-COVID and regulatory crackdown built up before an eventful national congress of the Communist Party of China in October led to a heavy sell-off for Greater China related equities.

As a result of the sudden shift in interest rates and year-long turmoil in China, we were unable to achieve our yearly goal of positive return, despite beating the indices with much less downside volatility. However, our mild decline puts us in great position to recover. It will take us merely 7.5% to recover our losses for this year whereas if we were to consider the Nasdaq as an example, being down 33% would mean the index would have to rally more than 50% to get back to its starting point in 2022. Such is the importance of limiting loss on compounding that Warren Buffett came up with this golden rule in investing:

Rule No. 1: Never Lose Money.

Rule No. 2: Never Forget Rule No. 1

As we enter the new year, the economic situation in China seems to have troughed. The high transmissibility of Omicron had made the COVID-zero policy increasingly irrelevant. The masses and lower income in China had faced economic hardship during the implementation of the COVID-zero strategy. This led to extremely rare nationwide protests in November, which triggered the authorities to abandon its COVID-zero policy. The Hang Seng Index was up decisively since 31st October 2022, rallying 35% in 2 months.

Even as the outlook is turning positive for China, global markets seem poised to face an uncertain year. Our view is that elevated rates are here to stay for the near-term due to both supply side and demand side inflation pressures. Inflation will not just bring about elevated interest rates but will further widen the rich-poor divide. This is because the 'rich' often have hard assets which appreciate much more in times of high inflation while the 'poor' must fork out more in daily expenses. The protests we are seeing in Europe are an indication of what would happen if the cost of living rises to a point where the masses can't even afford basic necessities, such as heating during winter. Now more than ever, we are in an age described by Charles Dickens.

> "It was the best of times, it was the worst of times,
>
> it was the age of wisdom, it was the age of foolishness,
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> it was the epoch of belief, it was the epoch of incredulity,
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> it was the season of light, it was the season of darkness,
>
> it was the spring of hope, it was the winter of despair."

On a more optimistic note, we believe continued high rates would favor our value investing style more than the growth investing style which benefited from the decade of ultra-low rates. Our long-term goal of 8% compounded annualized return remains and we are quietly confident of eventually hitting that return.

The last major development for our fund is that we have heeded the call of the Singapore government and transferred our fund from a Cayman domicile to a Singapore one. This transfer of fund domicile allows us to enjoy more synergies in our operations. We have added in an SGD class for our investors and investors can now invest directly to our fund in SGD.

Our View of the World Now

Inflation and … …

We had devoted time in our last 2 annual newsletters to warn about inflation. As economies, bar China, re-opened, inflation had started to gather pace. This was exacerbated by Russia's invasion of Ukraine in early 2022. To combat inflation, central banks led by the Fed responded with one of the steepest rate hikes in history.

The key question now is whether inflation will continue to stay elevated or have peaked according to consensus. It is expected that both Europe and the US will both enter a mild recession in early 2023 due to higher interest rates and lower growth. This will in turn alleviate the high inflation in both countries, thus allowing central banks to taper their rate rise and give room to cut rates. In our view though, it is not certain that inflation will be tamed by the end of 2023, and we continue to think that inflation will likely stay elevated till 2024.

Multiple factors are at play. However, prices at the end of the day are determined by demand and supply. We believe that supply side inflation will continue to wreak havoc on inflation. While supply chain disruptions have mostly normalized with freight costs plummeting, the cost of manufacturing a product remains high with high raw materials cost and shortage of labor. With the trade war between China and US and the need to build up contingency reserves, a lesson learnt from COVID, most corporates are now forced to have dual manufacturing facilities for both markets with higher buffers for working capital.

On the demand side, 2022 saw much lower Chinese consumption than usual due to their COVID-zero policy. Do not forget that China's population is about 1.4 billion as compared to the US population of about 330 million and Europe's population of about 700 million. As China re-opens, the pressure on prices in the land where most goods are currently manufactured will worsen. The same elevated prices we see in our daily consumption outside of China due to shortage of workers and high raw materials will likely repeat in China once they re-open. Chinese workers who have survived the pandemic in their hometown are unlikely to return to the cities or factories so soon, putting pressure on wages. At the same time, we forecast that "revenge travel" demand from the Chinese, already the largest tourist market before COVID, will be unprecedented.

To conclude, while the general consensus may be that we are approaching peak inflation, we are taking the view that inflation will hold at current levels, or that the more pessimistic case of stagflation may take hold. As a result, we continue to hold some commodities related equities exposure such as oil majors to hedge against continued oil rise.

Persistently higher interest rates

Interest rates have risen from almost zero at the end of 2021 to 4.5%. This was unthinkable at the start of the year. Should rates stay at current levels for an extended period, this will have a huge impact on asset prices. Notably investors will start using the current high rates as the default risk-free rate and this will in turn drive up the prices of all asset classes. After all, if fixed deposit rates and T-bills, which are risk-free, yield above 4%, why put it into a bond or REIT and suffer the possibility of a loss.

As we have elaborated before in our 2018 June Newsletter, the rise in asset prices since 2009 has been helped by artificial compression of the risk-free rate due to the Fed's quantitative easing, such that the whole capital asset risk return line has been shifted downwards. This simple theory put forward by Howard Marks still holds.

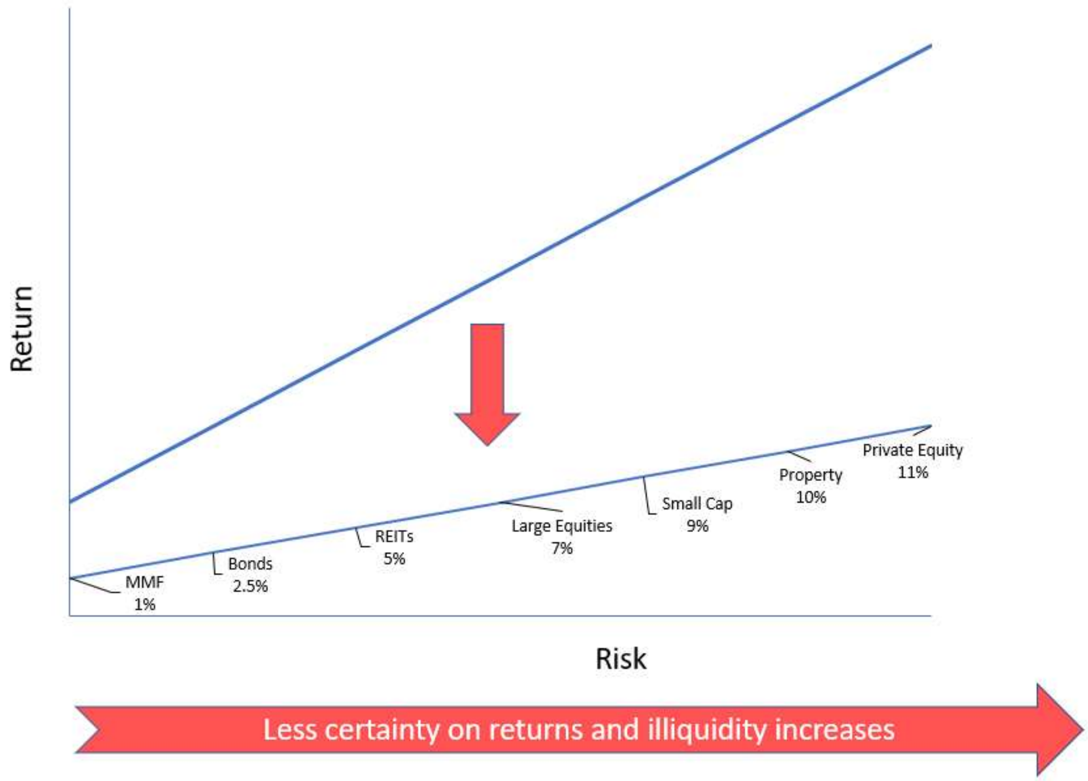

Chart 1: Returns compressed during period of low interest rates

If our view on an extended period of high risk-free rate holds, the higher rates will put pressure on the rest of the asset classes and go the opposite direction as illustrated in Chart 1 above. The riskier assets will have a steeper correction due to higher risks inherent in the investments. Top of the list are those asset classes which employ huge leverage to juice their returns such as leveraged buyouts or highly geared property funds. Continued high rates will make it hard for them to roll over their existing loans and force them to be below water.

Growth stocks are another area where investors had been willing to put up with low or even zero earnings in the past decade as investors determined that the prospect of future growth and earnings could compensate for low cost of capital. It all changed this year when growth stocks corrected significantly as the emphasis changed from growth to positive cash flows. The scary part of the correction for growth stocks is when the market valuation multiple changes from Price/Sales to Price/EBITDA, there is almost no bottom to the share price if the company happens to have no earnings.

It's only when the tide goes out that you learn who has been swimming naked.

-- Warren Buffet

The implication of higher rates is not as dire for our portfolio compared to other strategies as we have always focused on the companies which have strong cash flows. Some even are in a positive net cash position which will help them to withstand this period of turmoil.

China and Hong Kong's Reopening

China's reopening took much longer than expected. Yet when it happened in November, it was so swift and sudden that none of the markets was prepared for it. This was because prior to the loosening, there was consistent strong language promoting the strict adherence to the zero-COVID strategy. What changed was the November protests that sprang up across China as the masses could no longer put up with the economic hardship anymore. We were initially fearful of a heavy response by the authorities on the protests but were glad that Chinese government wisely did not make matters worse by coming down hard on the protestors.

While China is finally shifting away from Covid zero, the experience of countries which exited from containment to living with COVID tells us that the re-opening will not be a smooth process. China's medical infrastructure is ill-prepared to deal with the large swathes of sick patients. Widespread reports of insufficient medical facilities and medicine are bound to make the initial re-opening painful. This is especially since the population at large were not adequately vaccinated and there is a lack of advanced medical facilities to treat serious patients. However, despite the teething problems, one thing is for sure, the path to normalisation has been set.

Hong Kong, being intertwined with China, has had a stop-start economy even as it has evolved to live with COVID. This was because its borders could not be fully opened to international travellers without quarantine. With the relaxation of travelling restrictions both in and outside of China and Hong Kong in January 2023, there will be much more business and trade happening between China, Hong Kong and the rest of the world.

Even as the country re-opens, concerns remain over the economy. The regulatory crackdown on both property and technology has slowed the economy and resulted in massive job cuts. Coupled with fast falling exports, consumer sentiment is at one of the lowest points since Deng Xiaoping's opening of China to foreign investment.

Some of the immediate problems, such as regulatory crackdowns on the technology sector and controlling the debt issuance of property developers, could be solved by the loosening of tight government regulations. We have already seen signs of the government relenting from their tough stance with more support for the property sector and aid for the larger property developers. We expect a more comprehensive package in 2023 which will help the property sector move to a more stable footing. On the regulatory crackdown on technology, we have seen a softening of stance by the authorities, for instance when approving new games for major players such as Tencent and Netease. Even Alibaba, which was vilified for its arrogance in the aftermath of the failed Ant Financial IPO, saw a senior official visit them for the first time in two years in December.

We expect that the re-opening will spur China's domestic economy. Together with less regulatory crackdowns and the government's efforts to steer the country towards a consumption economy, we are hopeful that a stabilised property sector and an increase in domestic consumption will make up for the fall in exports as the rest of the world enters a potential recession. Hence, we remain positive about the China economy in 2023.

A note of caution though. The November protests, which forced the authorities to relax its COVID policy and open up the economy earlier than expected, might open up a pandora box in the sense that it might embolden the people to believe that mass protests are the way to seek for political change. We are watching this space closely even as the re-opening happens in earnest.

Portfolio Valuation

On an annual basis we report the basic valuation metrics of our portfolio so that our investors can compare our portfolio valuation over time.

Date	P/B	EV/EBITDA
31 Dec 22	0.61x	4.3x
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

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. This year has seen higher turnover than in recent years as the market presented more opportunities than usual. While we are patient investors, we will not make the mistake of falling in love with the existing companies in our portfolio. Whenever there are better risk reward opportunities, we will not hesitate to switch out of them.

China Unicom

We have previously built up a position on China Unicom. Our original thesis was that the company was severely undervalued and was ripe for a re-rating as the company's earnings improve. The company reported earnings in line with our expectations and the share price has held up well compared to the rest of the market this year. During the year, we switched our holdings in Unicom to its competitors, China Mobile and China Telecom. This was because we felt that the prospects of growth were better for them as Unicom, being the smaller telco, might face some financial pressures as she spends to catch up with her two other rivals.

Hutchison Port Holdings

We exited our holdings in Hutchison Port due to the recent rapid plummeting of container volumes. Our thesis was predicated on increased port charges and volumes. The port charges increase of about 5% came through at the start of the year. Dividends and debt continue to be well managed. However, there was a 20% fall in volume in both the months of October and November, which made us think twice. We were not able to determine if the fall in volume was due to a temporary fall in the demand of goods or structural decline of exports. In any case, with rest of the world being tipped to fall into a recession, we believe that the decline in the volume of containers will likely continue for some time. Hence, we exited our position.

Delfi

Background

Delfi is a manufacturer and distributor of chocolate confectionary. The company commands a market share of close to 50% in Indonesia. In addition, the company holds a sizable market position in the low-teens in Philippines and Malaysia. Under the stewardship of John Chuang, the company has grown from strength to strength since its listing in 2004.

Furthermore, the company has a good record of sharing its success with its shareholders with dividend payouts regularly exceeding 50%. We noted that when the company sold its stake in its cocoa processing plant in 2013, management paid out a significant portion of the proceeds. We have seen countless times when a company receives a windfall, vague reasons were usually given by the management to hoard the cash, such as a need to conserve cash for an M&A that never materialises. While such a simple practice would not have been an important criterion for short term investors to invest, for long term investors like us, it is an important signal that capital allocation, one of the key jobs of management, is done well.

Investment Thesis

With the younger demographic in the markets that Delfi operate in, we have been optimistic that the company can continue to grow sustainably. We have been owners in the company since 2017. At the point of our investment, the company was in the midst of strengthening its distribution in modern trade (convenience stores and supermarkets) over its traditional distribution of mom-and-pop shops. It was a painful transition as the product range had to be cut down and pricing had to be readjusted over time. This led to slower growth in the short term. Investors eventually lost patience and sold out. Just when the company turned the corner in late 2019, COVID hit, and demand collapsed temporarily. However, the company agilely managed its operations during COVID and started growing again this year. For the first nine months of 2022, revenue grew by 20% and EBITDA grew by 47%. With such growth rates, the company trades at less than 10x its 2022 earnings. Compared to Mayora, its listed peer in the Indonesia stock exchange which trades at 38x PE, Delfi is a steal. Besides, there is an M&A angle in that with its market position in Indonesia, it is likely that other players like Nestle, Cadbury or Ferrero group would be interested should Mr. Chuang be willing to sell.

When we started accumulating, the share price was slightly above S$2.00. We took the opportunity to add on to our position when the share price was depressed during the last two years. While our average cost price is still higher than the current price of S$0.78, we are confident that the market will re-rate the company eventually.

Appreciation

As we end our 7th full year in the markets, we remain in a strong position. We are cautiously optimistic that the re-opening of China will bring good returns for us in the coming year. However, we will stay vigilant with the spectre of higher interest rates as history tells us that there will be significant volatility as the market wakes up to the new reality of higher rates.

Lastly, we would not have made it this far without continued support from you. We will endeavour to do better in the years ahead.

Wishing all of you good health and happiness in the year ahead!

Sincerely

Lee Kian Soon & Sean Mah

FUND INFORMATION		
Fund Name	Astral Value Fund VCC	
Bloomberg Ticker	ASTRALV SP Equity	
Base Currency	USD	
Subscription Currency	USD/SGD	
Fund Manager	Astral Asset Management	
Jurisdiction (Fund and Manager)	Singapore	
Share Class	A (USD/SGD)	B (USD/SGD)
Subscription Charge	Waived	1%
Management Fee	1.2% p.a.	1.5% p.a.
Performance Fee	12%	15%
Early Redemption Charge	5% in Year 1, 3% in Year 2, 1% in Year 3	5% in Year 1, 3% in Year 2, 1% in Year 3
Redemption Charge	1%	
High Watermark	Yes	
Fund Administrator	Ascent Fund Services (Singapore) Pte Ltd	
Fund Custodian	DBS Bank Ltd.	
Legal Counsel	Rajah and Tann Singapore LLP	
Fund Auditor	Deloitte and Touche LLP (Singapore)	

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