ASTRAL VALUE FUND

PERFORMANCE COMPARISON

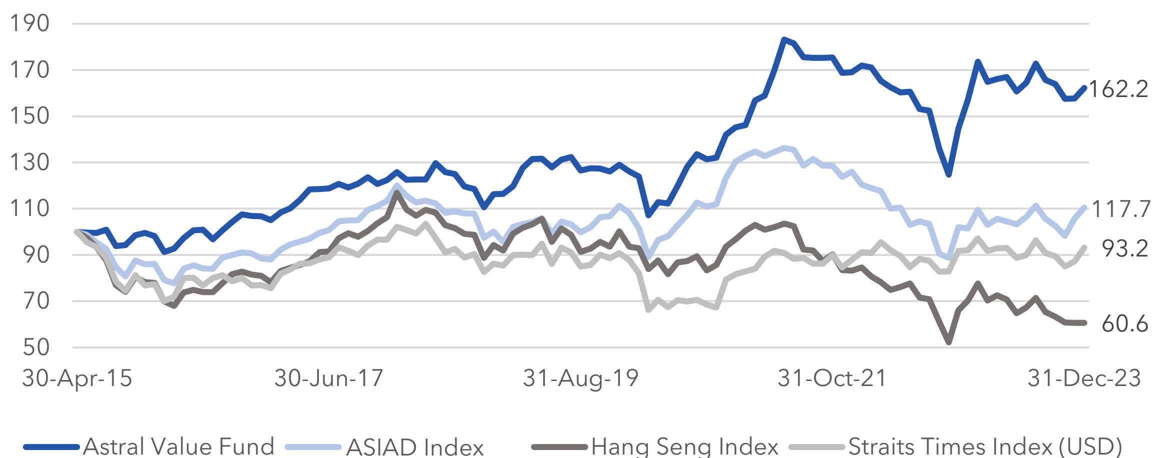
	Astral Value Fund*	ASIAD Index**	Hang Seng Index	Straits Times Index (USD***)
2023	3.2%	13.2%	-13.8%	1.1%
2022	-7.0%	-16.6%	-15.5%	4.8%
2021	16.5%	-0.6%	-14.1%	7.7%
2020	12.5%	10.1%	-3.4%	-10.2%
2019	10.9%	15.9%	9.1%	6.3%
2018	-4.9%	-14.1%	-13.6%	-11.6%
2017	16.5%	23.6%	36.0%	27.9%
2016	7.0%	0.1%	0.4%	-2.3%
May-Dec 2015	-1.8%	-7.5%	-22.1%	-22.6%
Returns since Inception	62.2%	17.7%	-39.4%	-6.8%
Outperformance		44.5%	101.6%	69.1%
Annualised Returns (Compounded)	5.7%	1.9%	-5.6%	-0.8%

*Returns are net of 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

2023 NEWSLETTER

Dear Partners,

Astral Value Fund's NAV increased 3.2% in 2023. Since inception in 2015 we have returned 62% to our investors, which translates to an annual compounded return of 5.7%.

Our result since inception compares favourably to the ASIAD Index, which returned 17.7% over the same period and annualised 1.9% a year. A US$100 invested in Astral on 1st May 2015 would have returned US$162 whereas a US$100 invested in the ASIAD Index would have only returned US$118.

To reiterate our fund's objective, we have a long-term aim of returning a compounded annualised return of 8%. To achieve this long-term goal, we have 3 annual sub targets every year. They are, in the following order: to make a positive return year on year, beat the ASIAD Index and minimise volatility. This year, we made a positive return and our Southeast Asia exposure continues to do well but we did not beat the ASIAD index due to our slight overweight on Greater China markets.

Greater China markets have not done well in recent times. The Hang Seng Index, which is the indicative benchmark for the offshore Hong Kong market, has declined 4 years in a row, returning a negative return of 40%. In contrast, as Astral Value Fund continued to make diversified investments in Southeast Asia and kept to value-based stocks in Hong Kong, we had only 1 down year in the same period and are up 26% over the last 4 years. The importance of a diversified exposure across different markets in Asia is thus very important. $1 invested in Astral has returned $1.26 whereas it would have only been worth $0.60 if the same dollar had been invested in the volatile Hang Seng index.

Looking ahead, we will persist with investing across different Asian markets. However, in the short term, it is our opinion that the pendulum has swung too much to extreme pessimism for China markets. While the majority of the market is awash with negativity over the Chinese market, we believe that the Chinese economy will eventually bounce back. We see great prospects from the increasing internationalisation of Chinese brands and are finding unprecedented value opportunities due to the gloom over China's near-term future. Great companies are now trading at rock bottom valuations as can be seen by the Hang Seng index trading at one of its historical lows. Barring October 2022's low, the Hang Seng is trading at the lowest level since the global financial crisis in 2008.

Given our track record, we have every confidence that when the market rebounds, our fund will continue to do well.

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Our View of the World Now

China Property

The are many reasons for the weak Chinese economy but the chief reason is the weak Chinese property market which accounts for an estimated 25% to 30% of GDP. We had been wary about the leverage in China property since 2016. Below are a few quotes from our previous newsletters:

> *Whenever we discuss about China, two ever-present risks keep us awake at night. One is that given the knock-on effects, the potential collapse of China's property will have a devastating effect on the economy.*
>
> *-- Astral 2016 December Newsletter*

> *Although the Chinese economy grew in 2017, we continue to see stress in the system. Debts continue to rise in the system. The Chinese government has announced plans to reduce their reliance on infrastructure and property growth to increase GDP and will clamp down hard on shadow financing. The last few times the government mentioned about pursuing higher quality growth and clamping down on property, the country went into a slowdown.*
>
> *-- Astral 2017 December Newsletter*

> *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.*
>
> *-- Astral 2021 December Newsletter*

On hindsight, we had hoped rather optimistically last year that a soft landing from the property crisis could be achieved. However, the magnitude of the property bubble, the push for zero-COVID and the Chinese government's unwillingness to go big on stimulus or support measures have pushed the country to the brink of outright depression. While national property indices only indicate a 10% decline of prices, the on-the-ground experience is more reminiscent of the Asian Financial crisis in 1997.

Shades of the 1997 crisis could be found aplenty in the current Chinese market. Back then, as in now, developers took on more projects than they could handle to keep pace with the industry growth. Leverage was often used in a cavalier fashion to juice returns or to bridge funding gaps.

Investors were more than happy to ignore the high gearing levels by piling on to the bonds, hoping to magnify their returns via leverage as well.

Then the shoe started to drop. The Chinese government introduced the well-intended 3 red lines on property developers to reign in leverage and shadow banking in August 2020. That move instantly turned off the tap to financing for many developers. To make matters worse, many developers had used pre-sale proceeds, originally earmarked for construction of properties, to buy more land and thus faced severe working capital issues. As news of uncompleted properties spread, Chinese buyers' demand plummeted as no one wanted to place an order for a property that may never get built. Banks, financiers, and bond holders got even more cautious, and credit became tighter. Prices of properties started to fall, and developers began defaulting on all their bonds which made banks even less willing to extend credit. A negative feedback loop was formed.

The troubles of developers spread to their suppliers as entire account receivables became impaired and demand for supporting industries like renovation and white goods fell. Properties have always formed a significant part of Chinese wealth and the sharp decline in their prices meant that the 'average' Chinese faced a significant drop in the value of their assets. At present, even resale transactions have grounded to a halt and anyone wanting to liquidate their property into cash should have to sell the property at a heavily discounted price if they wish to complete the transaction quickly. The precipitous drop in property prices directly and indirectly reduced the disposable income of almost the entire population. The propensity to spend for Chinese consumers is now much lower as well as they begin to hoard cash in anticipation of an economic slowdown.

We believe that the Chinese government are aware of the ripple effects of a sharp deceleration of house prices. Numerous measures have been introduced in 2023 to try to salvage sentiment but to no avail. However, most measures were piecemeal, and time is needed to see the results of these measures. An argument could also be made that the measures do not go far enough to address the underlying liquidity issues. To break the prevailing negative loop, more forceful measures need to be done. It is akin to an ICU, where a doctor must do whatever it takes to make the patient breathe again, than to worry about the long term effects of the ICU treatment. Given the dire situation, we believe more measures will be rolled out to prop up the property sector in 2024.

Yes, it's bad but do you know… …

While much has been written about the demise of China, there remain clear signs that China continues to grow its clout internationally in terms of commerce and trade. This is most evident in the burgeoning electric vehicle (EV) battle where China has built an unassailable lead.

Consider the following statistics:

1. Chinese companies account for more than half of EVs sold globally.

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2. The China market is both the world largest car market as well as EV market. In 2023, out of every 10 new cars sold in China, 4 were EVs.
3. Batteries, the most expensive and complicated component of an EV, are now mostly made in China.
4. The world's number one car manufacturer of EVs is BYD, no longer Tesla.
5. After surpassing the US, South Korea and Germany the last few years, China will overtake Japan as the world's largest passenger-car exporter in 2023.

The dominance of Chinese car makers in the EV industry has forced European and American governments to probe into the unfair subsidies given to Chinese car manufacturers in China. It is likely that barriers will eventually be erected in terms of tariffs to force the Chinese car manufacturers to localize their manufacturing in Europe and the US. However, as seen from the statistics above, the lead by the Chinese manufacturers is so huge and wide that it is near impossible unless a new battery technology such as sodium or hydrogen emerges as the mainstream alternative for EVs. We have seen the rise of the Japanese car manufacturers in the 80s and 90s and then the Korean cars in 2000s. The EVs leadership by the Chinese brands is another changing of guard. The major difference this time is that the largest car market in the world is now in China and not the US or Europe. If Europe and the US elect to erect barriers such as punitive import tariffs, without the knife-edge of competition, domestic car makers in US and Europe will continue to be uncompetitive.

Internationalisation of China Brands

The EV dominance above is but one example of the expansion of Chinese brands. Global MNCs today typically retain the branding of their products and outsource their manufacturing and heavy capex-related business overseas. For a typical manufacturing product that retails at 100 dollars, manufacturing only accounts for 20 to 50 dollars with the remaining balance retained by the brand owner to cover asset-light designing, branding, and marketing. For the last 30 years, China spent her time fighting to be the top manufacturer for outsourced goods. Many large Chinese corporates have now realised the advantage of building their own brands as that will allow them to earn higher margins. This trend is hastened by the trade war as the US continues to impose tariffs and major MNCs offshore their manufacturing away from China. Chinese manufacturers are realising that they have to own their own brands in order to access the end consumers. Large MNCs such as Geely, Haier and Midea used acquisitions to hasten the overseas strategy. Today, Volvo, Toshiba and GE are all Chinese-owned brands which have gotten a new lease of life under their new Chinese owners.

In recent years, new Chinese brands such as Xiaomi and Miniso have carved out a global niche for their products. The trend of Chinese companies succeeding overseas is not limited to the manufacturing arena. TikTok, which is owned by Chinese company Bytedance, reigns supreme in the coveted social marketing industry globally. Even in industries where we once thought the

market leader have unassailable moats, Chinese companies are making inroads. For instance, Shein and Temu have grown at such a phenomenal pace in the US during 2023 that incumbent Amazon is starting to take them seriously. In a bid to counter their threat, Amazon made a rare move late last year to cut their commissions for low price items.

We believe that this internationalisation of Chinese brands will be the trend for the next decade. For us as investors, if we are able to identify those companies which can succeed in growing overseas and get in them early enough, the returns will be significant for our investors. Furthermore, much of manufacturing is shifting to Southeast Asia to escape tariffs imposed by the US. Hence with our local knowledge of the region, we will be able to identify businesses that can benefit from this offshoring.

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. We have stocked our portfolio with some of the best companies in the world trading at historical low valuations. Read on more in our portfolio snippets below.

Date	P/B	EV/EBITDA
31 Dec 23	0.61x	3.6x
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. Our intention is to showcase 1 new idea every year and give more details on developments in ideas that had been expounded in previous years.

Delfi

Last year we revealed a significant position in Delfi, one of our top picks in Southeast Asia. The position has done well in 2023, rising from $0.78 at end of last year to close at $1.12 at the end of the year, returning 45% in a year. In fact, the stock rose as high as 1.44 in May, but we elected not to take profits as we continue to think that the stock is undervalued. Growth in revenue and profits remained strong for the company and this trajectory is expected to continue. The stock trades at less than 11x PE, a steep discount to its listed Indonesian peer, Mayora, which trades at 19x.

With capable management and mid-teens growth forecasted in a young and exciting growth market such as Indonesia, we are positive that the stock will continue to do well for us in the coming years.

China Telcos

Last year, we updated our switch from China Unicom to China Mobile and China Telecom. This has been a great call as the two bigger telcos returned more than 25% during the year with the underlying Hang Seng index down close to 14%. The Chinese government continues to push for digitalisation across the entire country and many companies, especially State-Owned Enterprises (SOEs), are choosing to work with the 3 domestic telcos due to data concerns. We continue to see a great future holding the telcos.

Sino Land 83 HK - Heads I win, tails I win.

Sino Land is the Hong Kong listed arm of one of Singapore's richest family, the Far East Organisation. Key businesses include property development, and property investment in malls and hotels. The listed company owns the Fullerton hotel in Singapore and Hong Kong. Investors' initial reaction whenever we pitch this stock is that property developers face high risks during this period when interest rates are high, and banks are restricting credit. However, this risk of default only applies to developers who are highly geared. Sino Land has a market capitalisation of 70bn but has 43bn in cash and **zero** debt. This means more than half the market cap is backed by real hard cash. The stock was trading at HK$8.49 as at 31st Dec 23 and had a book value of HK$19.80. This translated to a price to book of roughly 0.43x. Besides the high cash holdings (60% of market cap) which can earn higher interest income from the high interest rate environment, the company's hotels and investment properties have recovered from COVID and are doing very well. This gives the company a steady income for its assets.

The company has recently used the nationwide liquidity crunch to put in low bids to build up its land bank. With its huge cash balance, the company has no issues with financing these land bids. As the market eventually recovers, we believe that the company stands to make good margins when they launch these projects. The company follows a slowly increasing absolute dividend policy. At current price, the yield is about 7%. With its strong financials, good dividends, and the proven pedigree of the management, we are positive that the company will do well when market sentiment recovers.

The Point of Maximum Pessimism in China?

The current investing interest for China has turned exceedingly gloomy. The best anecdote we have heard so far to encapsulate the pessimism comes from someone living in China. “2023 will be the best year for China for the next 10 years.”

Falling property markets combined with negative wealth effect as expounded earlier has led to a drastic fall in consumption. There is seemingly no imminent good news on the horizon for Chinese stocks. Even hardcore investors who still believe in the China story have told us that maybe it will be better to invest when it is clearer that China is exiting this bout of recession.

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: The future is never clear; 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 Buffet

We have often heard the adage that to make money in stock market we simply need to, “buy low, sell high.” However, in stock market investing, it can be very difficult to pick the bottom as near the bottom, things always look like it can get worse. We remember fondly early in our careers back in March 2009, we had seen a few large bear rallies after the Lehmen Brothers collapse a few months earlier in October 2008. Numerous supportive measures had been announced since October, including the Chinese Big Bazooka and US Quantitative easing in November 2008. However, each time the stock market tanked even more after a short rally. When March 2009 came, there were seemingly no positive catalysts on the horizon. Even for us who were optimistic over the future, we

started to feel that the market would go lower, and we should perhaps get in when the market goes lower. Of course, that did not happen, and we missed the chance to get in at the lowest point of the market.

There are two points that we are making by sharing our experience in 2009. The first is that the stock market did not bottom out at the peak of the crisis when Lehman Brothers fell. Nor did the market bottom out when huge support measures were announced. The March 2009 **bottom happened** after everyone, including those who were optimistic in the long term, **lost hope in the short term**. What stuck was that even when prices fell to a level which screamed *buy*, buyers still wanted to wait for daylight.

The second point we are making is that we do not know when the bottom is for a market and there is a tendency to just over wait and miss the rebound. Remember the sharp rebound of 50% in 3 months in the aftermath of the relaxation of the COVID zero policy in October 2022? Should the market recover, that would be speed of the recovery. Hence the only way to not miss the bottom is simply to dollar cost average levels where it is near the historical low. Objectively, as shown in the chart below, Greater China is now at near historically low levels. Barring October 2022 when China tanked due to its COVID zero policy, the Hang Seng Index is trading at its lowest since 2008.

In addition, all the news about China property collapse and consumer pullback has been filtered through and priced in. International and domestic investors are all pessimistic about the near-term outlook of China. Every naysayer with a long-term negative view of China is out and remaining optimists are saying, "China will survive but the next few years will be difficult, so let's wait to buy when the outlook is better." Therefore, it is our opinion that sentiment for investing in China is probably near an all-time low.

More importantly for investors in our fund, we have proven that we can navigate through the downturn well. Our balanced portfolio across Asia, with a slight overweight in Hong Kong listed equities, has outperformed pure China indices. Over the last 7 years, the Hang Seng Index was down 5 years, but we were actually **up 5 out of 7 years**. This is due to the fact that we had exposure in other regions such as Southeast Asia and were continuing to find good ideas in China. Many seem to forget that China's economy is huge enough for managers like us to find value investing ideas which will do well regardless of the overall economy outlook. While past performance is not indicative of future returns, we have full confidence in our abilities. Being predominantly a long-only fund, should the sentiment recover on Chinese markets, we expect to do even better.

Have faith!

Appreciation

As another year passes by, we are thankful for your continued support. We can and will 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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