finexis
ASSET MANAGEMENT
汇信资产管理有限公司

FAM ASIA VALUE FUND
INVESTOR LETTER

January 2018

Dear Investors,

First of all, we wish you a happy new year!

The Fund gained 3.68% in Q4 to round off 2017 with 16.37%.

Investors trust us as fiduciaries of their assets because they believe our full-time efforts will help them achieve their financial goals. We are active on the investments so that you can spend time on your own priorities. Nevertheless, just as we monitor our portfolio holdings, we advocate that investors monitor their investments at their own level of comfort. To facilitate this, we have three main channels.

1. **Online Platform**
   Through FAM's portal, investors have on-demand access to their investment P&L, monthly statements from the Fund's independent administrator, monthly factsheet, and our new quarterly investor letter.

2. **Quarterly investor letter**
   Through this letter, investors can have a better understanding of how their investments are being managed in the context of our investment philosophy.

3. **Monthly factsheet**
   This is for investors who prefer to follow the portfolio's exposures to see how the portfolio evolves through our active process.

THOUGHTS ON INVESTMENT

The Power Of (Negative) Compounding

Einstein said that compounding is the eighth wonder of the world. Indeed, compounding is an essential part of building wealth. In managing portfolios, our focus is to manage negative compounding actively. This may seem unconventional but let us illustrate why this is important.

Imagine if your portfolio worth $100,000 lost 33% during a downturn. Will gaining 33% thereafter allow you to break even? No. Due to negative compounding, you need a return of almost 50% to make up for the 33% loss.

Negative compounding kicks in more with heavier losses. A loss of 50% requires the portfolio to gain 100% to break even. Even the best investors would find it challenging to gain 100% in short order.

LOSS PERCENTAGE	VALUE OF $100,000 AFTER LOSS	PERCENTAGE GAIN REQUIRED TO BREAK EVEN
25%	*$75,000*	***33%***
33%	*$67,000*	***49%***
50%	*$50,000*	***100%***
66%	*$34,000*	***194%***
75%	*$25,000*	***300%***
90%	*$10,000*	***900%***

Diversification ≠ Reduced Risk

Can a portfolio of 722 stocks be diversified, yet be quite risky?

The Asia Pacific ex Japan market index has 722 stocks, and is exposed to 67 industries, which by conventional wisdom, implies a diversified and less risky portfolio. What if investors were told that the main industry risk was from the technology sector? And that furthermore, there are less obvious risks, such as market composition and liquidity, also related to technology.

Hence, the Asia market risk is effectively concentrated, implying greater volatility. If left unmanaged, volatility generally leads to larger potential losses. Throughout the cycles, the market has declined 54% on a peak to trough basis. Again, this is why we focus on managing negative compounding.

PORTFOLIO DISCUSSION

To minimise the impact of negative compounding, our active process entails

- Selecting companies with strong fundamental attributes that are expected to compound in a superior and sustainable manner compared to the average stock.
- Identifying suitable entry points to invest so that we don't get into "good companies but lousy investments".
- Pre-determined loss management techniques to manage the unknown unknowns.
- Unlike funds that are pressured to remain invested regardless of market conditions, we are not compelled to invest if we don't see good opportunities.

For second half of 2017, our investors saw gains every month. These were achieved in a bumpy environment; and this was where the defensive attributes of the strategy manifested. Markets dropped in the first two weeks of August and December, and the Fund declined less without compromising on the upside. In September when the markets were down, the Fund generated gains from exposure to companies with strong fundamentals in the real estate and energy sector.

A Truly Diversified Portfolio

As discussed above, the broader Asia Pacific ex Japan market has meaningful concentration to the technology sector. The Fund is not concentrated in a particular country or industry. The subtler attributes of the Fund reveal focus on stocks with profitability and momentum.

"Are we headed for a downturn?" In the wise words of Howard Marks of Oaktree Capital,

"You can't predict. You can prepare."

Best regards,

Alvin Goh

Alvin Goh
Chief Investment Officer