FAM ASIA FUND

INVESTOR LETTER

April 2018

Dear Investors,

The record-breaking run in equity markets came to a climactic end in Q1. The Fund closed the quarter -0.09%. While this looks unremarkable, this was achieved in a period where markets took an abrupt turn, ending the unperturbed rally, and catching many market participants by surprise. If you were following the markets and was also caught out, or blissfully removed from the volatility, you will be glad to know that we have been working actively on the portfolio.

In this environment, it is appropriate that we discuss volatility. "Why should it matter; I have a long term horizon?", one may ask. It matters because volatility affects one's psychology and ability to stay the course.

THOUGHTS ON INVESTMENT

Volatility

Investing is like an F1 race where we have to balance speed and control. To us, market volatility is the same as the track's twists & turns; both need to be navigated to complete the race. Nobody intends for racing accidents to happen, but they do. Similarly, for bear markets; we can't predict them but we can respond proactively when they happen.

You can't identify the race winner by looking at who's fastest on the straight line, or who's leading at lap 1. Invariably, the car-driver pair that is fastest on the straight line seldom wins the race or the championship. It is also not a surprise that the more accident-prone drivers are the ones who do well primarily on the straight lines. Our portfolio runs pretty fast; we drive it with the objective to manage the twists and turns, not just be fast on the straight line.

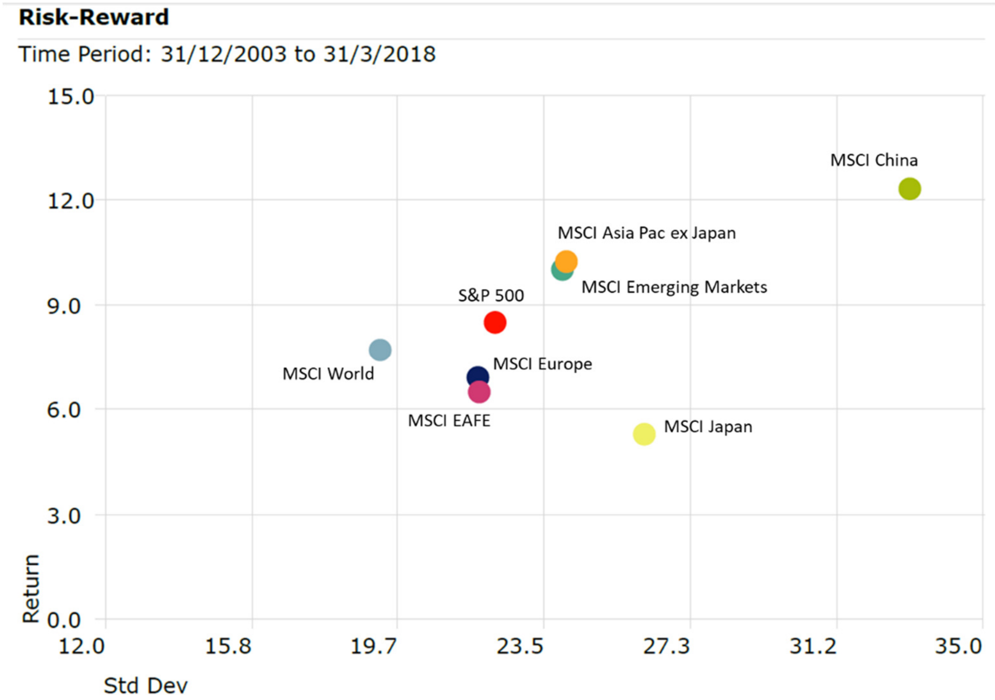
More Risk ≠ More Return

Imagine a race starting out on a straight section; every driver slams their foot on the pedal, accelerating and hitting high speeds to jostle for a lead. What happens when the turns in the track emerge? It is clear that everyone should navigate the turns rather than drive straight through them, risking damage to the car, or even their lives. Do we remain speeding, or do we remain driving? It is interesting that when it comes to investments, many people remain speeding.

Does more risk necessarily translate to more returns? If taking higher risk guaranteed higher returns, it would not be risky anymore. We do not think about investment risk as being only comprised of volatility, but we shall focus on volatility for the purpose of this discussion.

The chart below is typically used to convince investors that to get more return, one has to generally take on more risk. In reality, most will see the prospect of higher returns, while underestimate the associated risks. If this were to happen in F1, teams would just build powerful cars with little aerodynamic control, and instruct their drivers to just speed straight, not drive the track.

Risk-Return of global equity markets



Accordingly, we can look at the Asian crisis, GFC, and China bear market to see how Asian markets can decline more than other regions. How many investors have lost their shirts by simply ploughing into stocks without understanding and managing the associated risks? More importantly, they get traumatized and end up not reinvesting anymore.

Drawdown (%) of Asia, China and Global equities

Market	**Asian Financial Crisis 1997 to 1998**	**Global Financial Crisis 2007 to 2009**	**China bear market 2015 to 2016**
Asia	-56.73	-64.68	-29.91
China	-78.54	-73.30	-42.13
Global	-13.45	-57.46	-17.66

Source: Morningstar

PORTFOLIO DISCUSSION

Some of the team members were wondering why I was quietly smiling through the volatility. I'm certainly not masochistic, nor do I revel in losses. It would be disingenuous to say that we saw the February decline coming when we were writing about our active process in early January for the previous letter. Nevertheless, our process continued to serve us well, even with the market starting to twist and turn. Perhaps there is a reason why I prefer F1 to drag racing.

- Prepared and acted on active process: We reduced the fund's exposure to less liquid stocks where the risk/reward was no longer attractive. We increased cash levels to over 20% to cushion against the rising volatility and potential drawdown. The volatility presented new opportunities with better fundamentals and entry points, which we redeployed into. We retain dry powder to allocate as more opportunities present themselves, rather than being forced to invest.

- Portfolio benefitted: The active management translated to results. Over the quarter, the Fund's volatility and peak to trough drawdown was less than the broader market. We certainly don't expect this to happen all the time, but we aim to achieve that more often than not.

- Better opportunities: Another reason why I'm smiling. Alongside with the volatility, we are seeing larger dispersion among stocks. The market is differentiating among stocks, and this provides more opportunities for us to capture.

Warren Buffett said "You only learn who has been swimming naked when the tide goes out". Has the tide gone out? While the recent volatility indicates the waters are becoming choppier, we are not in a situation where the tide is going out. We continue to be active and prepared for both scenarios. Why? Because we are not paid to be fully invested, but to be discerningly invested.

Best regards,

AlvinGoh

Alvin Goh
Chief Investment Officer