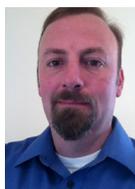




Asia Pacific Fund; Value And Returns In The Asian Economic Arena

27 May 2016
By **Thomas Hughes**
Senior Editor of Global Investor Spotlight



The Asia Pacific Fund is diversified closed end fund focusing on the greater Asian economic arena. It invests in mostly small and micro cap stocks with deep value with the primary goal

of capital appreciation. The fund is well diversified throughout the Asia region, excluding Japan, with a growing interest in India. As of the most recent fund fact sheet the portfolio had active investments in China, Hong Kong and Macau as well as Indonesia, the Philippines, South Korea, Thailand, Malaysia, Singapore and Taiwan.

The fund has been around since 1987 but is not the same now as it was then. It was taken

over by Value Partners Hong Kong Limited in 2013, headquartered in Hong Kong, and managed by Phillip Li. Value Partners was first established in 1993 and has since become one of Asia's leading fund managers, and the first to be listed on the Hong Kong Stock Exchange. Their focus is on value and deep value with a range of products running from actively managed funds like APB all the way through passive index funds. In total, Value



◀ Partners has over \$14 billion under management. One reason for their success is their industry leading feet-on-the-ground approach to market research.

Fund manager Phillip Li first started with Value Partners in 2010. He is a graduate of the University Of Michigan's Stephen Ross School Of Business and a chartered CFA with previous experience with Invesco, Alliance Bernstein and GAM where he worked in various portfolio management and marketing roles. He is now involved in all aspects of the Asia Pacific Fund's operations including investment research and

portfolio strategy.

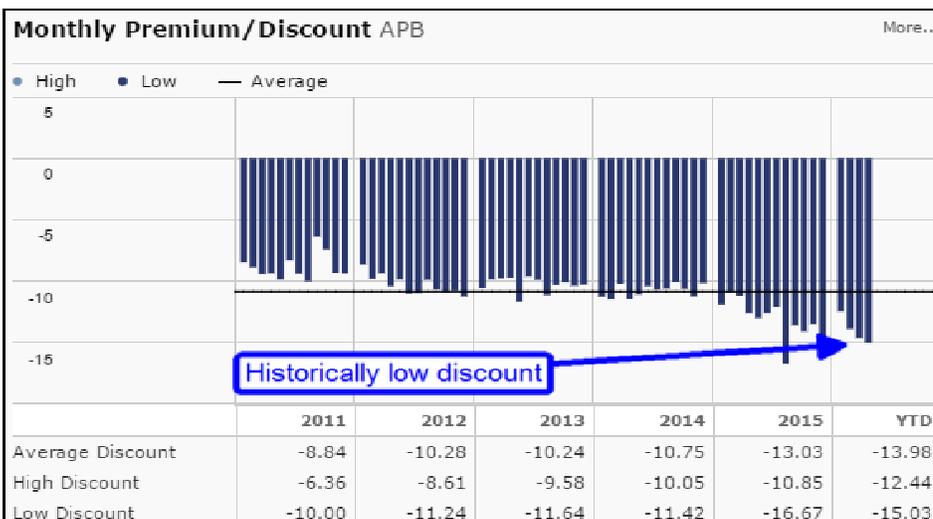
Along with its broad exposure to the greater Asian investment arena the Asia Pacific Fund is also diversified by sector. Top holdings consist of real estate, financials, consumer (both discretionary and staples, industrials, telecom, semi conductors, utilities, energy, insurance and materials. Portfolio activity in April consisted of the liquidation of portions of a Chinese real estate developer, a port operator and telecommunications company in order to make room for a new play in the energy field. Net assets in the fund total \$112 million

Along with its broad exposure to the greater Asian investment arena the Asia Pacific Fund is also diversified by sector.

with an expense ratio just over 2%. ▶

"During the month, we invested in an oil and gas name. While the company's result in the first quarter of 2016 was a big miss mainly due to a lack of recognition of asset-sale gains and a bigger-than-expected exploration and production loss, we believe the company has sizable potential given the strong refining margin from China's supportive fuel price policy and the tight demand-supply balance in chemicals."

The fund boasts a solid institutional and insider ownership, nearly 90%. The top four holders control more than 50% of the shares, led by the City Of London. City Of London holds just over 4.51 million shares by itself, about 43% of the float, while insiders control just over 24%. Karpus Management holds another 1.3 million shares, about 10%, while



◀ 1607 Capital Partners, the next largest institutional owner, holds about 2.5%.

Short interest was quite high during the first quarter of 2016, due to financial market instability in China and elsewhere in the region, but has come down significantly in the 2nd. The latest report shows that short sellers exited the fund en masse, down -34.6% in April alone. This may be due to the expectation of continued stimulus and pro-growth policy in China, and also to the deep value offered by the portfolio.

Simply in terms of price-to-earnings the portfolio is trading at about half the valuation of mainland China stocks. In terms of asset valuation, NAV and the discount to NAV that closed end funds typically trade the portfolio is equally undervalued. At last

Short interest was quite high during the first quarter of 2016, due to financial market instability in China and elsewhere in the region, but has come down significantly in the 2nd.

report NAV was \$10.80 with share prices hovering around \$9.25, providing a near -15% discount and near the historic low. The 3 year average discount is -11.63% with Zee statistic of -1.70 which further highlights the funds deep value. In terms of total returns the fund has outperformed the category in NAV and share price in the 3, 5 and 10

year time periods.

Outlook for China and the Asia region remains positive. Growth in China alone is expected to run in the range of 6.5% to 7% in 2016 and 2017 with moderate growth continuing out to and beyond 2050. With this in mind it only makes sense to have some exposure to region and the APB is surely one way to do it. The fund has a unique approach to region, focusing on smaller and undervalued businesses with strong balance sheets supported by greater socio- and macro-economic trends. Positive factors in favor of this fund are its low valuation compared to NAV and the broader market, as well as the recently re-instated dividend. 2015 was the first year the fund has made a distribution, roughly 5%, since the Value Partners takeover and surely not the last.