Dear Investors:

The fund rose 4.1% for the quarter. We are 77% invested. The invested portfolio's P/E is 9.5x, has a price to book of 1.6x, dividend yield of 3.6% and an ROE of 19.5%. The improved ROE and lower P/E were partly due to the better earnings reported by the companies. The first quarter was a hotbed of activity compared to our usual placid pace. We entered 5 new positions, added to 3 existing names, reduced 3 positions and sold out of 2 names.

Undoubtedly the event of the quarter was the earthquake and tsunami in Japan. I am pleased to report the fund performed well in the face of such an exogenous shock, despite one of our holdings having direct exposure to the event. **Saizen REIT** has the dubious distinction of being a REIT that had suspended distribution. Hence its stock price was extremely depressed at about 0.4x NAV. Management had indicated their intention to resume distribution payments. We believed that the distributions would be sustainable and once distributions restarted, the market would rerate the stock appropriately. Saizen had in fact resumed paying a small distribution this quarter, although it was smaller than what we had expected. It escaped from the tsunami relatively unscathed with minor damage to its property; however, a good portion of its properties was also in the most affected areas like Sendai. The pall over Japan during the next couple of months will also not be helpful to Saizen's revenue growth. Distributions are likely to fall below our targeted levels, and the rerating that we had hoped for, will not be as impactful. We have since liquidated almost our entire position.

Fortunately, the rest of the portfolio has done well in the meantime. One of our larger positions, **EDMI**, is the subject of an exit offer by its parent, SMB United. EDMI is in the business of manufacturing smart power meters. It has a good reputation amongst utilities and is in a market that has good growth characteristics, with many countries implementing smart metering programs. Barriers to entry are high, in our view; good utilities demand reliability and are unlikely to choose a meter on the basis of price only.

The exit offer places an undemanding valuation of 8x trailing earnings on the company, which is too low for a company exhibiting good returns on capital and excellent growth characteristics. It remains to be seen if the exit offer will actually come to fruition; nonetheless, such are the travails of being a minority shareholder in Asia…

In the last report, I had mentioned reviewing my mediocre efforts at market timing. Our low invested level impacted performance last year. Going forward, the fund will adopt the following stance: Our default invested level will hover around the 80% level. We will retain the flexibility of going into a larger cash position. I believe that the 80% level provides an adequate cash buffer to scoop things up in the event an opportunity comes up, whilst counteracting my bearish proclivities.

Goh Yew Liang
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