ASTRAL VALUE FUND

HALF YEARLY COMMENTARY

Dear Partners and Friends,

We are delighted to share with you our first half yearly commentary of Astral Value Fund. It is our intention that this commentary serves both as a platform to explain our investing style as well as an update to our partners in details for our performance and how we view the investment climate. Given that we have just started in May 2015, we will focus more on the former in this commentary.

Our unique approach

Astral Value Fund is managed more like an owner's fund focusing in Asian assets. Our aim is to earn a return higher than equity markets by taking less risk over time. An owner's fund refers to the fact that we treat the fund as if we own the capital with capital preservation being our starting point, and we would invest only if the returns and risks can be met according to our targets.

"We're not going to buy anything just to buy it. We will only buy something if we think we're getting something attractive ... You don't get paid for activity. You get paid for being right."

– Warren Buffet

We term every investor in our fund as a “partner” because we see each partner who invest in us staying with us for the long term of at least three years. Three years is a long time in the instant gratification world of today but for value investing to succeed, compounding must be allowed time to work its magic and for asset values to correct to its intrinsic value.

For returns, we generally aim to target a compounded annual return higher than 8% net of fees to our partners, as this is what we believe to be the long run return of equity markets.

Another distinct point of differnce between us and many other funds is that we treat risk as permanent capital impairment rather than volatility. Permanent capital impairment occurs when intrinsic value is reduced due to a business suffering some adverse events or due to us being wrong in our analysis or the low probability of us losing money materialising. Unfortunately, quantifying the risk of permanent impairment of capital is rather subjective and cannot be distilled into a number. But we steadfastly prefer to be vaguely right rather than be surely wrong by using volatility as our key measure of risk.

Investing Strategy

Our value investing style is best described by Charlie Munger as “intelligent investing”.

"All intelligent investing is value investing –

to acquire more than you are paying for.”

– Charlie Munger

We generally divide our investing situations into the following categories of Sustainable High Income, Franchise, Fast Growers, Turnarounds, Deep Value and Special Situations. Each situation requires us to understand the asset in question and in the case of an equity, the business in depth and also the management’s likely course of action. Only when we are able to appraise the value of a business, can we compare it to the market price that “Mr Market” is offering us to determine if the asset is cheap relative to intrinsic value. In order to apraise the value of a business well, we need to be able to understand the business dynamics and have a handle over what makes the business tick but this is not possible if the business is beyond our circle of competence. Hence, we generally avoid companies such as mining exploration or industries where special knowledge is required.

Knowing that something may be cheap is a good start but investing success usually requires an edge. For us, whenever we see a business trading at a steep discount to intrinsic, we start out by saying we have no edge at all and then think why "Mr. Market" would give us such a bargain. The reason is because for every trade we enter into, there is an opposite seller who have owned the stock and the fact the seller owned the stock before means they have a high probability of knowing more than we do. Hence we ought to understand why they are selling the stock.

Our edge we have over the other side will only come when we dive deep into the company and “kick the tires” such as knowing the short term and long term prospects of the company by doing industry research, talking to management and other stakeholders. Many of these companies have little or no analyst coverage or large funds are unwilling to invest in them, giving us an edge if we do our homework well. Our edge increases further as in many cases we are willing to ignore short term problems and wait two to three years for an investment to work out if the reward and risk are on our side.

“First, answer the question, "what's your edge?" In highly competitive financial markets, with thousands of very smart, hardworking participants, what will enable you to reliably outperform the field? Your toolkit is critically important: truly long-term capital; a flexible approach that enables you to move opportunistically across a broad array of markets, securities, and asset classes; deep industry knowledge; strong sourcing relationships; and a solid grounding in value investing principles.”

– Seth Klarman

One should recognize that market works in cycles and there are times when the entire market is overvalued. Astral has an edge in market cycles as we focus on absolute return and have a wide investment mandate of cash, stocks and bonds where we can allocate money to whichever asset is showing more value. Although we think equities do well in the long run, we will not hesitate to hold bonds or cash if we cannot find any value in equites.

Our Past Experience

Prior to setting up Astral, the management have had experience investing, consulting and managing various businesses giving us the experience to appraise various companies. In addition, we have a track record of managing money in the last 3 years from our previous employment. We returned 47.1% net of all fees in 2 years and 8 months as shown in the table below. This track record is certified by APEX, the second largest fund administrator globally. If you are interested in finding out more or getting a copy of the certification, please let us know.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2012	4.0%	2.2%	0.2%	0.3%	-5.6%	3.0%	2.9%	0.7%	4.7%	0.9%	-0.3%	3.4%	**17.3%**
2013	5.2%	2.8%	0.8%	1.1%	-1.0%	-2.6%	6.1%	-4.3%	3.3%	2.9%	-1.0%	0.8%	**14.4%**
2014	0.9%	3.5%	1.0%	1.1%	1.2%	0.5%	2.4%	-1.2%					**9.7%**

Our past experience and track record of sucessful investments make us confident of replicating our past success. We have also invested a significant amount of our Net Worth in setting up the fund and investing into Astral Value Fund, as we strongly believe in eating our own cooking.

It is our intention to publish a brief monthly factsheet and a detailed newsletter for June and December updates to discuss our performance and investing strategy. Should you find the newsletter insightful and useful, do feel free to share it with people you think would benefit from it.

Sincerely,

Astral Asset Management