

PAF Quarterly Review

The Company's underlying holdings suffered mixed fortunes during the quarter. Of note were the performances of the two major investment themes, online classifieds and gaming. 51Job and Zhaopin performed strongly after posting solid third quarter results, however the gains achieved by these names were virtually offset by the Company's holdings in Donaco International and Macau holdings, MGM China and SJM Holdings.

Donaco continues to be impacted by a slower than anticipated ramp up at their Lao Cai property, which was evident during their AGM update. We view the negative factors causing the slower ramp up as transitory and believe the share price correction is overdone. Macau continues to be impacted by the same factors highlighted in our September 2014 quarterly commentary when we were adding to these names. Given the focus on short term data points in Macau, the potential for near term volatility was always going to be high, although it has been more severe than we anticipated. We continue to believe in the long term opportunity in Macau and think comments from Steve Wynn, Chairman and CEO of Wynn Resorts, during their third quarter conference call sums up the current situation, *"everybody is being very conservative at this point over there... I don't know whether it is a squall or we're in the rainy season or how long it will last but we are still very very bullish on Macau"*.

The continued depreciation of the Australian dollar was again a bright spot and contributed meaningfully to performance.

Our infrastructure holdings, Beijing Capital International Airport (BCIA) and Sinopec Kantons, were both in the news during the quarter.

Final approval for Beijing's second airport was announced in early December giving the green light for construction to begin in 2015. The project is estimated to cost 80bn RMB (inclusive of infrastructure connecting the airport to the Beijing city) and is scheduled to begin operation in 2020. Of importance to BCIA funding was also announced, which did not include a contribution from the listco, which had been a major overhang for BCIA. This frees up BCIA to further reduce debt and increase their payout ratio going forward.

Sinopec Kantons provided shareholders with a new year's gift by announcing the acquisition of gas pipeline assets from its parent company Sinopec. The company will pay 2.6bn RMB for 100% of the Yulin-Jinan gas pipeline and assume 3.5bn RMB of existing debt. While the assets being acquired are less than some analysts had flagged, the transaction remains earnings accretive and completes another milestone towards Sinopec Kantons becoming the major infrastructure owner within the Sinopec Group. The deal values the pipeline assets at 9.7x and 1.7x trailing earnings and book respectively, which we view as attractive given the return profile of the underlying assets and the ability to grow throughput and earnings in the near future. Given the lower consideration we also view the potential for debt funding to be used rather than equity dilution as a positive.

The greater transparency these two announcements provide regarding what were major overhangs should lead to a re-rating of both stocks in 2015.

The quarter was an active one for the Company with several new positions being added, broadening out the portfolio. We bought into Mindray Medical and AAC Technologies, two companies we have held within our unlisted trust previously.

We also initiated a position in Chinese FMCG company Tingyi Holdings, which adds to our Asian consumer company thematic. We have long admired Tingyi from afar. Management has built one of the strongest branded consumer companies in China over the past twenty years, both in terms of distribution presence and brand portfolio. The recent share price correction has provided a good entry price to what we view as one of the best exposures to the growth in Chinese domestic consumption over the coming decades. A softening in the competitive dynamic in the instant noodle category, which had impacted margins over the last two years, declining commodity prices and the impending turnaround in the Pepsi bottling business acquired in 2012 should drive earnings growth.

With the aforementioned portfolio changes the invested position of the Company was increased to 72% at the end of December, compared with 38% at then end of last quarter.



Kevin Bertoli, Asian Equities Portfolio Manager