

## “Build Smarter Portfolios”

Asia Small Companies Alpha Plus (ASAP) is a diversified portfolio of growing Asia focused companies built through our VMQ stock selection process.

The model portfolio of 150–250 stocks is created by optimising expected excess returns against investment strategy Beta constraints.

The investment objective is to add alpha to the MSCI AC Far East Small Cap Value Index while delivering the Beta return.

The strategy can be implemented by professional investors according to their own regulatory and client requirements.

### Benefits

- A portfolio solution to better capture preferred ‘smart’ Beta factors.
- Strong and stable excess returns — API’s ‘Alpha Plus’ — in addition to the strategy Betas.
- Greater flexibility, where we can agree strategy holding update terms and clients carry out portfolio implementation.
- A cost effective way to create ‘Alpha Plus’ smart Beta.

For additional information please visit [www.apicapital.com](http://www.apicapital.com)

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As at 31 Dec 2018	Portfolio
No. of securities	230
Wtd Avg Market cap	USD 2.4bn
Fwd Price/Earnings	8.5x
Price/Book	0.9x
Fwd Dividend Yield	3.7%
Portfolio Active Risk (pa)	2.1%
Factor/Asset % of active risk	22% / 78%
Beta R <sup>2</sup> (since inception)	0.93

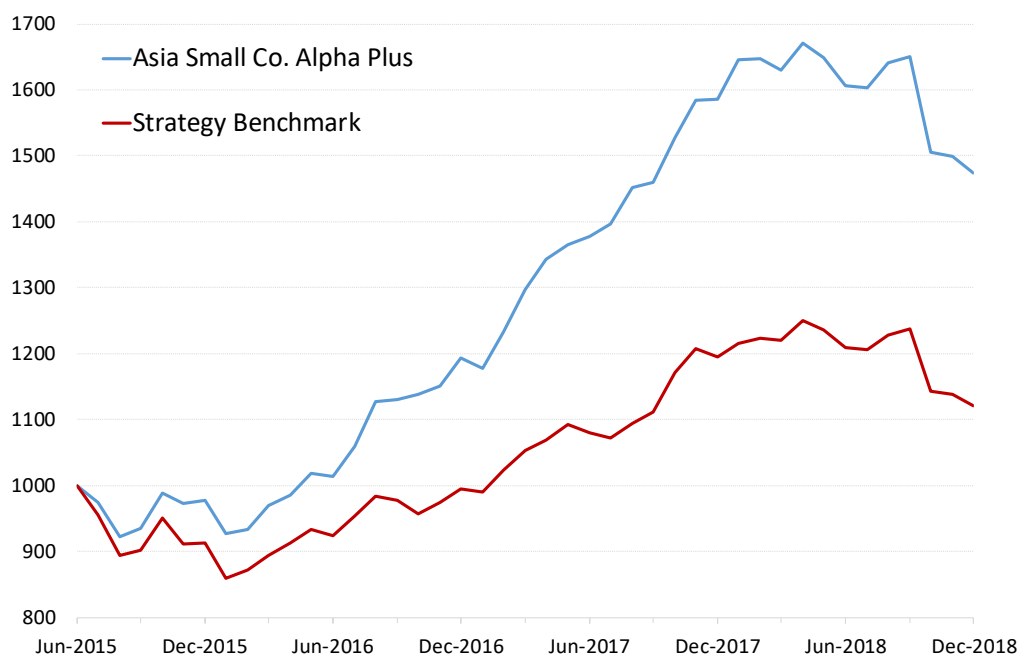
# Asia Small Co. Alpha Plus

## Strategy Update 31 December 2018



### PERFORMANCE\*

Value of AUD1000 since inception



Periods ended 31 Dec 2018	3 Months	6 Months	1 Year	3 Years	Since Inception
<b>Portfolio*</b>	<b>-10.6%</b>	<b>-8.2%</b>	<b>-7.0%</b>	<b>+14.7%</b>	<b>+11.7%</b>
Benchmark^	-9.5%	-7.4%	-6.3%	+7.0%	+3.3%
Active	-1.1%	-0.8%	-0.7%	+7.7%	+8.4%

\*Portfolio total return net of fees and Interest Withholding Tax in AUD.

^Strategy Benchmark is MSCI AC Far East Small Cap Value, AC Pacific ex Japan Small Cap Value prior to 30/11/2017  
Inception Date: 30 June 2015, returns over 1 year are per annum

### PORTFOLIO REVIEW & MARKET UPDATE

- The Strategy return in AUD terms for quarter ended 31 December 2018 was  $-10.6\%$ , the smart beta outperformance target, MSCI AC Far East Small Cap Value,  $-9.5\%$ . We increased target holdings in the strategy to 230 names at the end of November, improving portfolio expected return per unit of active risk with performance for December in line with strategy target.
- The interim reporting season across the region in October and November was generally positive for our companies, however, corporate reporting was largely overshadowed by declines generated by the threat of increased tariffs on bilateral trade between the United States and China. Those threats of increased tariffs subsequently migrated into negotiations of a new trade agreement between the United States and China, while equity markets worldwide continued to display increased volatility.
- Our best company for the quarter was Daikyo Inc, a real estate development business in Japan that was subject of a successful take-over bid from Orix, the shares increased by 28% during the quarter. Our worst performing companies were Korean apparel maker F&F and Japanese oil exploration and petrochemicals company Cosmo Energy, which fell by 52% and 51% respectively. In the case of F&F, the fourth quarter decline simply returned the share price to the start of year level after six months of strong gains, there was no negative news associated with the company. For Cosmo Energy, the key driver appeared to be the 40% decline in the oil price recorded for the quarter, the company reaffirmed expectations of profits growth of 15% for the year. We are maintaining our holdings in both companies.
- In the short-term the outcome of trade negotiations between the United States and China is likely to set the tone for day-to-day market direction. In the long-term we remain confident regarding the Asian markets and our companies which have the scope to generate strong investment returns.
- We remain fully invested in the portfolio and unhedged for AUD based investors.



### “Build Smarter Portfolios”

We select stocks by combining quantitative portfolio construction processes and stock selection tools with relevant ‘fundamental’ analysis.

We rank stocks quantitatively based upon their alpha attributes:

- Value
- Momentum
- Quality

We build portfolios by trading off the expected returns on the VMQ scale against the main investment objective of delivering the strategy Betas.

We constrain the active risk to be mostly stock specific.

This approach results in “smarter portfolios” - we aim to deliver alpha plus ‘smart’ beta.

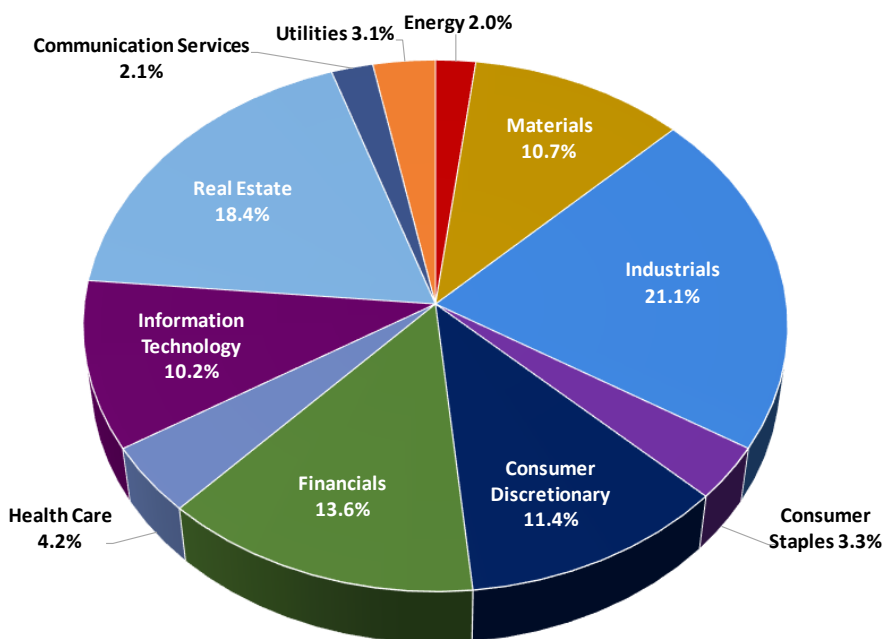
Smart beta alone makes dumb portfolios.

**Benchmark(s):** MSCI AC Far East  
Small Cap Value

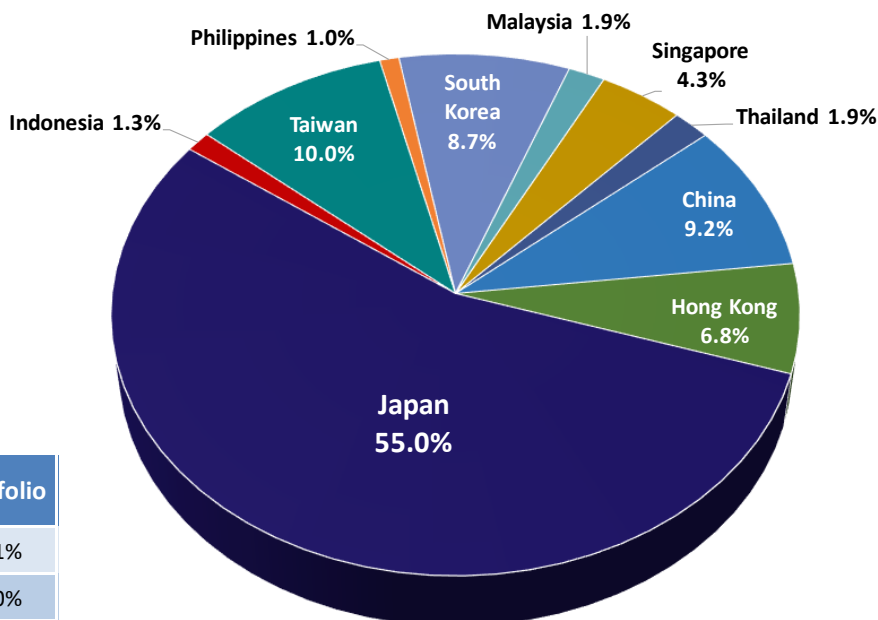
**Investment Objective:** Outperform the Benchmark by 2-4% pa over rolling 5 year time periods.

**Portfolio Manager(s):** Robert Swift, Kevin Smith, Roger McIntosh

### SECTOR ALLOCATION



### COUNTRY ALLOCATION



### TEN LARGEST HOLDINGS

Company Name	Country	Portfolio
Kyushu Railway Co.	Japan	1.1%
Korea Real Estate Inv. & Trust	South Korea	1.0%
Champion REIT	Hong Kong	1.0%
KWG Group Holdings Ltd	China	1.0%
Chong Hong Construction	Taiwan	1.0%
United Urban Inv. Corp.	Japan	0.9%
Mapletree Commercial Trust	Singapore	0.9%
Sojitz Corporation	Japan	0.9%
China Water Affairs Group	China	0.9%
Aeon Mall Co. Ltd	Japan	0.9%
<b>TOTAL</b>		<b>9.6%</b>

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