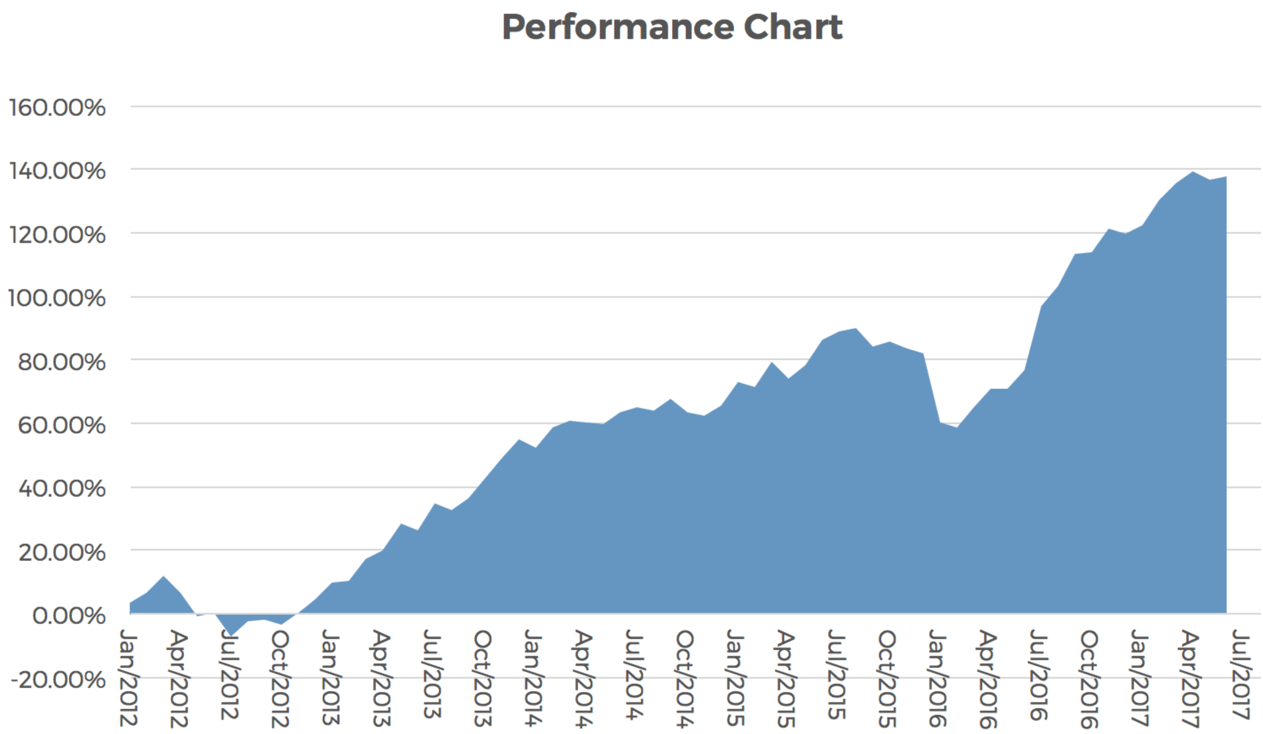
Looking for Out of Favour Assets



Year	Returns
2012	+4.58%
2013	+47.98%
2014	+7.09%
2015	+9.91%
2016	+20.73%
YTD	+8.17%

Since inception in November 2016, the Heritage Global Capital Fund has returned +11.16%. Year to date (June 2017), the fund has returned +8.17%.

The investment strategy has been built and refined over the years. It was first implemented in January 2012 in a private investment vehicle prior to the fund's inception.

Taking into account of both records, the fund's investment strategy has returned a cumulative +137.89%, or +17.07% net fees annually.

The track record of the investment strategy prior to the fund's inception has been discounted for the current fee structure of the fund. It has also been verified by Equinoxe Alternative Investment Services (Mauritius) Ltd, an independent fund administrator.

Full Divestments

Over the course of the last 6 months, the fund has divested fully stakes in two of its holdings.

Compagnie Financière Richemont SA (CFR)

The first, Compagnie Financière Richemont SA (CFR), is a Switzerland based jewelry company. Investors will probably be more familiar with the luxury brands it owns - Van Cleef & Arpels, Cartier and Mont-Blanc and among many others.

When we first initiated the position, the company was beset by multiple woes - including but not limited to:

- Multiple terrorist attacks in Europe
- Dampening of sentiment from Brexit
- Anti-graft campaign in China affecting all luxury brands
- Fall in mainland tourists visiting Hong Kong
- Strengthening of the Swiss Franc

The share price of Richemont had peaked in 2013 at CHF 88.44 before falling to a 3 year low of CHF 51.95 in July 2016.

Our favoured investment strategy is to seek out high-quality businesses with enduring competitive advantages that are temporarily out of favour. Such companies are rarely cheap, and moments to acquire stakes in such businesses are rare absent a full blown financial crisis.

Richemont has had a fortress-like balance sheet with no net debt, demonstrated consistent dividend growth throughout the last two decades. Free cash flow generation continued to be robust even during the Great Financial Crisis of 2008.

Our own experience is that such companies bounce back quickly after the storm has passed, often stronger and more robust than before as their weaker competitors get weeded out or acquired.

We acquired our position in Richemont at an average price of CHF 63.94 at the end of 2016. These shares were sold at an average price of CHF 78.92 over the last 3 months, realising for the fund a gain of 23.4%.

China Yuchai (CYD)

The second, China Yuchai (CYD), manufactures, assembles and sells diesel engines in the People's Republic of China (the PRC).

When we first came across the company, it was deeply undervalued, trading a 0.4x P/B multiple, a normalized free cash flow yield of 7x, and yielding 7% in dividends.

While CYD's underlying business was both robust and cash flow positive, its stock price was not immune to the aftermath of the unwinding of the Chinese Stock Market Bubble of 2015. The share price fell from a 5 year high of $20.48 in 2013 to a 5 year low of just $7.57 in 2016.

Given the prevalence of widespread fraud of Chinese companies listed overseas, investors must be curious why we would venture into investing in Chinese Yuchai.

After all even large-cap Chinese companies are not immune to fraud as multi-billion dollar blowup of Sino Forest showed.

The answer is that China Yuchai's main controlling shareholder is in fact Hong Leong Asia, a family owned conglomerate listed on the Singapore stock exchange controlled by the Kwek family in Singapore (they are also the controlling shareholder of City Developments, another of our portfolio companies).

As the controlling shareholder of CYD, they acted as an "guarantee", ensuring that the cash generated by CYD would be paid out via dividends out to both Hong Leong Asia, its controlling shareholder and in the process, us as minority shareholders too.

We acquired our position in China Yuchai shares at an average price of USD $13.09. These shares were sold at an average price of USD $18.14 over the last 3 months, realising for the fund a gain of 38.6%.

No other full divestments were made in this half of the year.

Other Partial Divestments

We are in the process of paring back our stakes in several of our portfolio companies, all at significant gains. We will update our investors fully once these divestments are complete.

Looking for Out-of-Favour Assets

Our modus operandi is to look for out-of-favour assets. The United Kingdom is one such area providing a fertile ground for our investment operations. Uncertainty and gloom pervade the markets from the potential fallout from Brexit.

Still, let us not forget that the UK is still the 5th biggest economy in the world. While it has chosen to leave the EU, it is still bound to it irreparably by virtue of geography. We will continue to take positions selectively when opportunities arise.

One recent investment made for our portfolio was in one of the world's leading communications services companies. They provide fixed-line services, broadband, mobile and TV products and services as well as networked IT services.

They are one of the most dominant communications services provider in the UK, selling products and services to consumers, small and medium sized enterprises and the public sector.

The share price had fallen 35% from its peak before we took a position in the company. It currently trades at a normalised free cash flow multiple of 10x and sports a dividend yield of 5%.

Ending Comments

2016 was a year filled with much uncertainty.

Multiple major events reverberated through the market – the collapse of oil prices, the second implosion of the Chinese stock market, Brexit, and finally Donald Trump's surprise victory in the Presidential Campaign.

2017 by any measure has been a relatively benign year for the record. The property market is showing signs of life. En-bloc activity has picked up substantially after being dormant for years as property developers seek to replenish their dwindling land banks.

Property sales have been robust and existing unsold inventory continues to dwindle to record lows.

Affordability has also improved dramatically since 2011. Home price-to-income ratios haven fallen from 5.5x to 4.5x. Mortgage servicing ratios are also low, at 16% of household income[1].

All this bodes well for property prices in the next five years – and share prices in property development companies (of which we own several) have rallied to reflect the improving fundamentals.

Adding to that, credit spreads have narrowed once more after reaching record highs at the start of 2016. IPO and M&A activity is picking up and credit growth has been more robust than it was this time last year in Singapore. In short, "animal spirits" are returning, albeit from a low base.

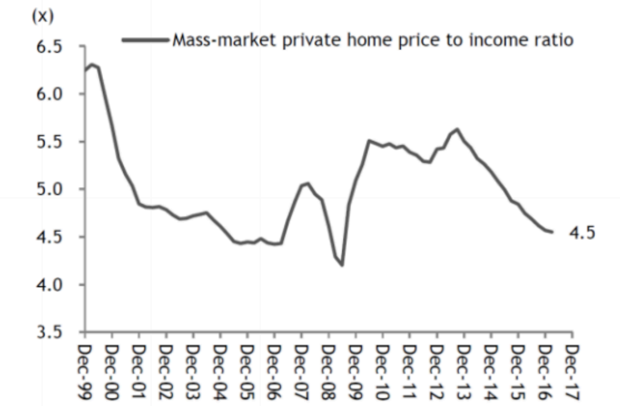
It is with this note that we turn slightly cautious. Since the start of 2016, the fund's investment strategy has returned over +34%. While we are satisfied with this result, it does not make our job any easier as investment opportunities are far less abundant.

Still, it is worth noting that valuations outside the US are still trading within a reasonable range. Our portfolio companies are in sound financial health and have been acquired at good valuations. We continue to remain optimistic about the long term returns of our portfolio companies.

[1] Refer to Appendix 1 for more information

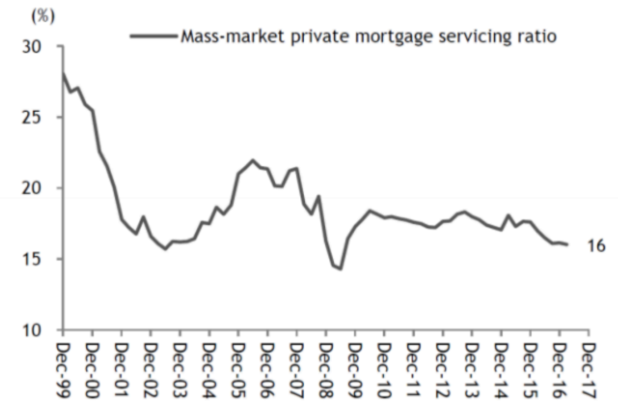
Appendix 1

Fig 17: Mass-market private home price to income ratio...
No longer unaffordable



Comparing a median 1,000 sf OCR home to 8th decile of household income.
Source: URA, Singstats, Bloomberg, Maybank Kim Eng estimates

Fig 18: ... and mortgage servicing ratio
Comfortable at 16% of household income



Assuming a 1.0% spread over 3M SIBOR, LTV of 80% for a 30-year loan.
Source: URA, Singstats, Bloomberg, Maybank Kim Eng estimates