Asia Pacific UCITS Fund Commentary 3Q19

Longleaf Partners Funds

For Professional Investors Only

For the quarter ending September 2019, the Longleaf Asia Pacific UCITS Fund declined 5.79%, while the MSCI AC Asia Pacific Index fell 1.37%. In the first nine months of 2019, the Fund was up 7.36%, underperforming the index's 9.04% return. The key drivers of the relative underperformance in the quarter were our underweight position in Japan, which was the top contributor to the index, and a steep price decline in Speedcast, one of our investments in the communication services sector, discussed in detail below.

Portfolio Returns at 30/09/19 – Net of Fees

	3Q19	YTD	1 Year	3 Year	Since Inception 2/12/2014
APAC UCITS (Class I USD)	-5.79%	7.36%	-5.57%	3.96%	4.80%
MSCI AC Asia Pacific Index	-1.37%	9.04%	-2.91%	6.39%	4.89%
Relative Returns	-4.42%	-1.68%	-2.66%	-2.43%	-0.09%

Selected Indices*	3Q19	YTD	1 Year	3 Year
Hang Seng Index	-7.48%	4.33%	-2.70%	7.70%
TOPIX Index (JPY)	3.28%	8.66%	-10.50%	8.66%
TOPIX Index (USD)	3.02%	10.93%	-6.08%	6.36%
MSCI Emerging Markets	-4.25%	5.89%	-2.02%	5.98%

*Source: Bloomberg; Periods longer than one year are annualized

Market Commentary

In addition to the ongoing U.S.-China trade war, escalating protests in Hong Kong (HK) made the biggest headlines in Asia. Hong Kong's youth have long felt disenfranchised in the current "one country two systems" regime, and the extradition bill that initially ignited the protests was just a trigger for what we believe will be a longer-term struggle. The issues run much deeper, and it is hard to forecast when and how the situation gets resolved. China has been the key driver of growth in HK both through tourism and population growth, as Chinese companies set up operations in the region, but still primarily employed mainland Chinese in the most senior positions. The local Cantonese-speaking Hong Kong youth feel left behind, as they are not able to get on the property ladder given the high real estate prices, and they don't have second passports as an "insurance policy", in contrast to many of HK's rich and powerful. We believe that public housing supply needs to increase to make property affordable for Hong Kongers. The Government and corporations are taking measures to increase land supply over the long-term, but this is unlikely to be a quick fix.

While around 43% of our portfolio is listed in HK, the look-through economic exposure is much lower at around 6%. Macau is our largest HK-listed exposure, accounting for close to 14% of NAV through our investments in Melco International and MGM China. Both companies are Macau-based, primarily serving mainland Chinese consumers, and are quite insulated from what is happening in neighboring HK. While HK has seen mainland Chinese visitation plummet by 40-45% in recent months, Chinese visitation to Macau continues to grow at double-digit rates. Melco International was one of the top contributors for this quarter, underscoring the limited impact of the HK protests on Macau.

On the other hand, hotels in HK are facing a downturn that we view as reminiscent of SARS, with hotel occupancy down to 30% in some cases. Retail malls that cater to Chinese tourists are empty, and rents are edging lower in both office and retail markets. Sectors that are dependent on Chinese tourism — hotels, malls, travel agencies, retail — have experienced sharp declines. While some companies are likely to see a negative impact on medium-to-long-term growth prospects or even the viability of their business model, we have also seen our on-deck list of overly-discounted, strong businesses that we expect to weather the volatility become much more robust in recent months. After the quarter-end, we took advantage of the volatility in HK and initiated an investment in a luxury goods company that is cheap because of its exposure to mainland Chinese buyers who account for a meaningful portion of its sales in China, HK and abroad. We are confident that the near-term disruption in the company's HK sales does not meaningfully change the long-term global demand for the company's brands.

Another new area of macro-led opportunity for us is India. India has generally been an expensive market and has not been competitive for our capital historically. However, valuations have come off meaningfully in recent months due to deleveraging in the economy. We initiated a new investment in India in the small and mid-cap space this quarter.

Prime Minister Modi has rolled out impactful policy measures like Demonetization, a Goods and Services Tax, and an Insolvency and Bankruptcy Code, which will be good for the long-term development of the economy. However, some of these policies are having near-term unintended consequences. Demonetization in November 2016 led to a surge of cash flowing into banks, insurance companies, and yield chasing debt mutual funds, which in turn lent money to Non-Banking Financial Companies (NBFC). In the absence of lending by public sector banks, NBFCs grew aggressively and contributed over 20% of the total credit in India. According to rating agency ICRA, NBFCs helped fund 55-60% of commercial vehicle sales, 30% of passenger cars, and nearly 65% of two-wheelers in India in recent years. In chasing short-term growth and high public market valuations, overall underwriting standards worsened and compromised asset-liability matching. Most NBFCs borrowed short-term from wholesale markets and lent long-term. The music stopped when investment-grade rated IL&FS, a large NBFC, defaulted in 2H 2018. Investor sentiment turned negative, and credit ratings were no longer trusted. Faced with redemption pressure, debt mutual funds and banks are cutting back on lending to NBFCs. This liquidity squeeze means some of them won't be able to roll-over liabilities, leading to forced deleveraging in the Small and Medium Enterprises and consumer space where NBFCs had become the key last mile intermediary for credit creation.

Under the new bankruptcy regulations, founders and controlling shareholders cannot get away with over-leveraging their balance sheet without any risk of losing control. Banks are not as willing to restructure borrower obligations, and they are looking for more equity in financing transactions. As a result, the private sector is focused on deleveraging rather than investment for growth. Furthermore, India's GDP growth has decelerated to 5%, its slowest growth in 6 years. The government has introduced fiscal measures, including a ten-percentage point corporate income tax cut to kick-start the growth engine.

This ongoing clean-up of India’s financial system has negatively impacted the sectors that were reliant on NBFCs for financing. In August 2019, commercial vehicle sales were down 39% YOY, passenger car sales down 41% YOY, two-wheeler sales down 22% YOY, and tractor sales down around 16-17% YOY. The resulting de-rating in these sectors has created some interesting opportunities, especially in the small and mid-cap space, where the valuations have been affected more than in the large-cap space.

Portfolio Discussion

The market tends to over-react to short-term news flow, allowing us to buy strong franchises, run by superior capital allocators at discounted prices. Volatility has been consistently high in Asian markets since we launched this strategy in late 2014. For the most part, this volatility has been caused by macro-economic and geo-political worries (sometimes unrelated to Asia), rather than anything fundamentally wrong with the individual business. Such volatility is our friend. Combined with our ability to go anywhere across market capitalizations and geographies within Asia in search of attractive risk-adjusted returns, our menu of opportunities continues to refresh at a rapid pace. This has manifested itself in very low cash levels and higher turnover than expected in this portfolio (approximately 50%) since inception. We are bottom-up stock pickers, and any country or sector weighting in our portfolio is purely a function of where we see opportunities. Coming into 2019, we were heavily underweight Japan at around 16% of the portfolio. As the Japanese equity markets lagged their Asian counterparts in the first six months of 2019, all of our incremental capital went to new qualifying opportunities in Japan. We initiated three new Japanese investments in 1H 2019, leading to our Japan weighting increasing to almost 29% at the end of 1H. However, we remain underweight Japan relative to the MSCI AC Asia Pacific Index, which dampened relative performance in a period when Japan was the top contributor in the index. Asian markets experienced elevated levels of volatility (even by Asian standards) during the quarter, driven by slowdown worries in China and India, unrest in HK, RMB depreciation, U.S.-China trade war, and Brexit. We took this opportunity to further upgrade our portfolio by concentrating our investments in dominant businesses with solid balance sheets, that can go on offense during downturns. Most importantly, we have management partners who have the willingness and ability to compound value per share during uncertain times like today by taking advantage of distress:

- Our largest holding, Melco International (around 7.5%), is one of only six gaming concessionaires in Macau. It is a beneficiary of the ongoing consumption upgrade in China, with more than 90% of its EBITDA coming from its high margin and fast-growing mass gaming business. Most importantly, Melco has a strong balance sheet and is led by Chairman and CEO Lawrence Ho, an owner-operator (56% stake) and adept capital allocator focused on building value per share. In the last downturn in 2015-16, the company returned almost $2 billion to shareholders through special dividends and value-accretive buybacks and increased Melco's ownership in Melco Resorts (MLCO) by buying out JV partner Crown's MLCO stake at a large discount to intrinsic value. This super-charged the value growth coming out of the downturn in 2017-18. In the current downturn that started in 2H 2018, Lawrence Ho has adeptly used the group's financial strength to repurchase close to ten percent of Melco Resort's free float, privatize its Philippine subsidiary at cheap multiples and purchase 20% of Crown Resorts from his former partner James Packer.

- Our second-largest holding, MinebeaMitsumi (around 7%), is a Japanese manufacturer of high precision equipment and components—the largest manufacturer of miniature ball bearings (60% market share globally) and pivot assemblies for hard disk drives (80% share globally). CEO Mr. Yoshihisa Kainuma is an owner-operator (he and his family own approximately 7%) with a proven record of compounding value through the cycle. During his ten-year leadership, sales, operating profits, and book value have compounded at an annual growth rate of 13%, 18%, and 14%, respectively. This impressive compounding of value was achieved with minimal share dilution. In late 2015, when Japanese equity markets were weak, Kainuma acquired Mitsumi at extremely attractive valuations, booking negative goodwill from the acquisition. Mitsumi, under Minebea management, has gone from making losses to making close to mid-single-digit operating profit (OP) margins within a year after being acquired. In 2016, MinebeaMitsumi bought back converts, which was the equivalent to repurchasing 5% of shares outstanding at a discount to our appraisal. The company has a strong balance sheet, and we are confident that Kainuma will take advantage of the current downturn by repurchasing discounted shares and acquiring companies at attractive valuations, thus growing the intrinsic value of the business regardless of the cycle. This year, they acquired Japanese auto parts maker U-Shin at value accretive multiples, giving them access to U-Shin's automotive customer base.

- One of our largest holdings, CK Asset (around 6%), is a HK-listed real estate and infrastructure company. CK Asset has taken an unconventional approach to land banking—it solely makes decisions based on return on capital. As HK land prices remained elevated in the past few years, CK Asset was disciplined in bidding for land bank and walked away from deals that offered limited margin of safety and returns, despite its HK land bank shrinking to just a few years' worth of inventory. Instead of deploying cash into land that could make low returns, CK Asset has invested in recurrent income-generating assets that display resilience across cycles around the globe at attractive entry points. CK Asset has now built up a recurrent income base of over HK$4 per share, and this is set to continue rising, further distinguishing itself from other real estate companies. The Li Family owns about 34% of the company, and CEO Victor Li (son of Li Ka Shing) is focused on growing value per share. In 2017, CK Asset bought back close to HK$7 billion worth of stock in the open market, making it the second-largest share repurchaser on the HK exchange that year. In 2018, CK Asset sold its office building "The Center" in Hong Kong at an astounding 2% cap rate, and within a year, it more than made up for the lost rental income by redeploying just half of The Center sale proceeds by purchasing UBS's London headquarters and infrastructure assets from CK Hutchison at attractive terms. Recently, the company made an opportunistic bid to acquire UK pub owner and operator Greene King at a 10% EBITDA yield. CK Asset's limited gearing gives it full flexibility to execute value-enhancing transactions and to take advantage of distress. Year-to-date, Victor Li and his family have been actively buying stock in the open market (around US$171 million dollars), demonstrating their confidence in the business over the long term.

In the last six months, eleven of our management partners have repurchased shares at value-accretive prices (either at the company or personal level): Baidu, CK Asset, CK Hutchison, Ebara, Hyundai Mobis, Man Wah, Melco International, MGM China, Midea, New World Development and Toyota.

Portfolio Changes

In the third quarter, we initiated a position in an Indian industrial equipment and machinery company that remains undisclosed. In the second quarter, we mentioned a new investment in a Japanese retailer, Seria (previously undisclosed). Seria is discussed in detail below.

Performance Review

3Q19	Contribution to Portfolio Return (%)	Total Return (%)
Top Five		
Man Wah	+1.17	+44
Melco	+0.56	+7
Toyota	+0.31	+8
Hyundai Mobis	+0.17	+4
Seria	+0.17	+5
Bottom Five		
Speedcast	-3.14	-66
SoftBank Group	-0.81	-18
New World Dev.	-0.75	-17
CK Asset	-0.73	-13
Baidu	-0.68	-12

YTD 2019	Contribution to Portfolio Return (%)	Total Return (%)
Top Five		
Man Wah	+2.03	+60
WH Group	+1.45	+22
Melco	+1.12	+18
Hyundai Mobis	+1.04	+26
SoftBank Group	+1.01	+18
Bottom Five		
Speedcast	-2.38	-59
Baidu	-2.23	-35
MGM China	-0.20	-6
CK Hutchison	-0.19	-4
Ebara	-0.10	+1

TOP PERFORMERS:

Man Wah, the leading recliner sofa manufacturer in China, was the top contributor in the quarter. We visited the company's Vietnam plant in September and were impressed with its recently completed state-of-the-art factory, which came into production earlier than originally scheduled. As of the end of September, Man Wah's Vietnam plant can export 1,700 Twenty-Foot Equivalent Units (TEU) per month, compared to just 600 TEUs at the beginning of the year. Vietnam production currently represents around 60% of the U.S. export business and will increase to around 90% by April next year. Man Wah is well-positioned to win market share as Vietnamese exports to the U.S. have no tariffs, giving them a large advantage over Chinese competitors. Man Wah's domestic business, which contributes about 80% of total profits due to its brand strength and dominant market share, is also performing well thanks to its proprietary new products and favorable raw material prices. The underlying cash flows of the company are strong, and operations from both domestic and export businesses are trending upwards. The company remains heavily discounted, even with recent price appreciation, and Man Wah began repurchasing shares at discounted valuations in September.

Melco International, the Asian casino and resort holding company, was another top contributor for the quarter. Melco reported strong second-quarter results with reported EBITDA up 24% year-over-year (YOY), driven by market share gains in both mass and VIP markets and better luck factor. The recently-opened Morpheus resort is ramping up well, delivering market share gains in both segments. Total industry gross gaming revenue (GGR) was down around 5% in the quarter, but this was driven by a steep decline in VIP business, which was impacted by China's slowdown, trade war, and RMB depreciation. Mass GGR continued to grow at a low-teens rate, driven by growing disposable income per capita in China, consumption upgrade (more overseas travel), and infrastructure improvements in and around Macau. We do not expect the turmoil in HK to have a material impact on visitation, and mainland Chinese visitors to Macau have continued to grow at greater than 10% in recent weeks. Melco International sold its ownership in its Cyprus project to subsidiary Melco Resorts for $375 million, achieving a much higher price than our conservative appraisal of the project. As a result, capex requirements at Melco International have decreased significantly, enabling our owner-operator Lawrence Ho to become more aggressive on increasing shareholder returns.

Toyota Motor, the Japanese global automotive firm, was a positive contributor for the quarter. Toyota reported solid June quarter results in August, with consolidated vehicle sales of 2.3 million units, an increase of 67,000 units YOY, and positive operating income above street estimates. Toyota lowered full-year guidance, primarily due to changing foreign exchange rate assumptions and kept its consolidated sales volume target unchanged at 9 million units. During the September quarter, Toyota announced capital alliances with Suzuki Motor and Subaru Corporation, further consolidating the market. Although the share price has outperformed the market in the quarter, it remains very attractively discounted today. Taking into account Toyota's net cash, which represents about half of its current market capitalization, Toyota trades at a low single-digit multiple of operating profit. Given its scale, dominance in hybrid technology, and significant research and development budget, we believe Toyota is well-positioned to maintain and grow its dominant position in the future of mobility (alternative propulsion, autonomous, and connectivity). Including the 300 billion yen share buyback program just completed in September, Toyota offers about a 6% yield.

Hyundai Mobis, auto parts maker and after-market parts provider for Hyundai and Kia Motors, was a top contributor in the quarter. 2Q sales and operating profit grew by 6.5% and 18% YOY, respectively. Importantly, the after-sales business that generates over 25% OP margin grew 12% YOY. Hyundai Mobis is well-positioned to be a beneficiary of the move towards electric cars. The company's per-vehicle parts sold is higher for electric cars than internal combustion engine cars. Sales of electrification-related parts grew 82% YOY in the quarter, representing 7% of overall sales, and this division is fast approaching breakeven levels. Recently, Hyundai Motor Group announced it would set up an autonomous driving joint venture with Aptiv for the design, development, and commercialization of SAE Level 4 and 5 autonomous vehicles. Aptiv has one of the top autonomous driving technologies in the world. Mobis will have a 10% stake in Aptiv, and this should help Mobis build software capabilities for autonomous cars. Although the share price has appreciated around 24% YTD through September, its valuation remains attractive, given the new growth engine (electrification), high-quality after-sales business, net cash balance sheet and potential for group restructuring. During the quarter, the company announced a share buyback program of 323 billion Korean won, of which 62.5 billion won worth of shares will be canceled.

Seria, the second-largest 100-yen store operator in Japan, was a contributor in the quarter. We initiated a position in Seria in Q2 2019. The 100-yen industry in Japan took off in the early 90s after the Japanese economic bubble burst, and consumers began to focus on value. Stagnant wages and a sputtering economy led to a fundamental shift among Japanese consumers in recent decades, spurring them to seek greater value for money. Seria opened its first store in 1994, and today it has 1600 stores. In deflationary Japan, Seria stands out as a company that has compounded EPS at 13% CAGR and book value per share at 38% CAGR over the last five years. It generates almost 20% return on equity (ROE) with a net cash balance sheet, and return on invested capital (ROIC) is in the mid-40% range. Seria distinguishes itself through the use of point-of-sale (POS) data and systematic management of product orders and inventories. As a result, Seria has a higher gross margin, operating margin, and sales-per-store than its competitors. Seria has improved operating income (OI) margins from 2.3% in 2008 to around 10% today. Private company Daiso is the largest competitor with around 2,800 stores in Japan and over 4,000 worldwide, yet we believe it does half the OI margin that Seria does. Listed-competitors Can Do, and Watts generate less than 3% OI margins.

We have met CEO Eiji Kawai several times. The Kawai family owns about 40% of the company, and Eiji is the nephew of the founder. Eiji originally worked at a local bank, where he was in charge of developing a system to optimize loan receivables. He joined Seria in 2003 and was head of corporate planning before becoming president in 2014. He used his background in data analytics to introduce the POS system in 2004, which has been a key driver of Seria's success and helped the company increase its market share from 11% in 2004 to 22% today. We have followed Seria's rise over the years, but an expensive valuation (over 35x price-to-earnings (PE) as recently as 2018) kept us from investing in this franchise. However, in the last 18 months ending June—2019, due to negative same-store sales, consumption tax hike worries and labor cost escalation facing the industry, the share price has declined over 60%, allowing us to buy this quality business at about 15x PE or 12x maintenance free cash flow (FCF).

BOTTOM PERFORMERS:

Speedcast International, the largest global satellite communications network service provider, was a significant detractor for the quarter. Speedcast started the year strong, with its stock price up over 20% in 1H 2019. At the beginning of July, the company downgraded its 2019 EBITDA forecast by around 12%. This triggered a violent market reaction, with the stock price dropping around 40%. At the end of August, the company announced its first-half results, which met the updated EBITDA guidance, but cash conversion was weak. The share price declined by a further 30%, reflecting market concerns over the company's balance sheet and liquidity position. In our view, there are two key issues that the market is worried about:

1. Leverage: Speedcast has financed recent acquisitions with debt, which has led to almost AUS$620 million in net debt on the balance sheet. With weak cash conversion in 1H and downgraded EBITDA guidance, we believe Speedcast would be around 4X net debt to EBITDA by the end of 2019. The market is worried about a dilutive rights issue.

2. Earnings downgrade: Speedcast has issued multiple downgrades in the last 12 months. The market is worried about a lack of organic growth and has lost faith in management's forecasting and execution capabilities.

We are comfortable with the company's leverage position for the following reasons:

- Speedcast's competitor Marlink owned by APAX (European Private Equity fund), is levered 6x net debt/EBITDA vs. Speedcast at 3.5x today and potentially at 4x by the end of the year. Over 90% of revenues are recurring (subscription), and capital intensity is low. As a result, such businesses typically generate predictable cash flows (opposite of what we saw in 1H due to building up in working capital) and can sustain high leverage ratios. This is one of the key reasons why private equity is very active in this space.

- The company has already received covenant relief (higher threshold) from its banks until December 2020, so they do not run the risk of breaching the covenants. The term loan is covenant-lite and trades at 94 cents on the dollar.

Speedcast's flawed execution, especially on large contracts, is the key reason for the earnings downgrade and weak cash conversion. In 2018, the contract with Carnival Cruise, Speedcast's largest customer, was renewed to offer higher bandwidth on its cruise ships. The implementation of this contract has run into technical issues resulting in Speedcast having to purchase expensive bandwidth to fulfill its contractual obligations. This was responsible for almost 50% of the downgrade. Australia's National Broadband Network (NBN) business, another big contract, has run into delays and cost over-runs. NBN is a large bureaucratic government organization, and Speedcast has had to hire additional personnel for elaborate testing and documentation requirements. Another reason for the downgrade is a subpar performance by their latest acquisition, Globecomm, where key pipeline projects were delayed. Finally, the company (81 operating entities) moved to a common ERP platform in 1H 2019, and this transition led to a temporary increase in receivable days, thus impacting cash conversion. We believe all these issues are either one-off or fixable and do not indicate a structural impairment of this franchise.

CEO Pierre-Jean Beyllier has built Speedcast by acquiring competitors cheaply in this fragmented market. Revenue has increased from 100 MM to 750 MM in the last five years. Being the biggest player in this space, Speedcast can procure satellite bandwidth much cheaper than its peers. However, in this pursuit of inorganic expansion, the company has not focused on integrating these acquisitions and delivering organic growth. This needs to change.

We have been in numerous conversations with the management, the Chairman, and board members over the last three months and feel comfortable that the company is headed in the right direction now. What the company needs to do is focus on organic growth without any distraction of M&A. The company has set clear priorities now:

1. Execute: Deliver on FY2019 guidance and beyond.

2. Organic Growth: Focus on organic growth; no more M&A.

3. Cost Cuts: The company has identified $20 million in cost savings by FY20, pretty sizable for a company that is expected to generate $145 million EBITDA this year.

4. Deleverage: Improve cash conversion and bring leverage ratio down.

To the positive, it is good to see insiders (PJ and board members) buying shares personally. PJ is an owner-operator, and the majority of his net worth is in Speedcast. The company agrees with us that the board needs a refresh. We now have a new Chairman in Stephe Wilks, who is very engaged. Two industry veterans, Peter Shaper, ex-CEO of Caprock Communications, which was acquired by Speedcast, and Joe Spytek, founder and CEO of ITC Global, a major player in this space, have both joined the board. Further, the incentives for these new board members are aligned with shareholders. On the business front, the energy vertical has stabilized, and the company expects it to grow 5% in 2H 2019.

Baidu, the dominant online search business in China, was a detractor in the quarter. Baidu reported second-quarter profits well above the consensus estimate as the company scaled back spending on channel and promotional marketing. Traffic growth remains healthy, and in August, the daily active users (DAU) of the Baidu App exceeded 200 million. While the general macro headwind and self-induced healthcare ad slowdown are likely to persist for the rest of the year, Baidu's advertising revenue is well-diversified with the top 12 industry sectors making up about two-thirds of Baidu Core revenue. Excluding half of the 12 sectors that saw YOY sales decline in the second quarter, Baidu Core revenue would have grown at a mid-teens rate. We are encouraged that Baidu bought back US$291 million worth of shares in the quarter. Its recent decision to monetize one-third of its stake in Ctrip could provide more flexibility to buy back more discounted shares, which we believe would be significantly value-accretive at the current price.

CK Asset, the Hong Kong and China real estate and infrastructure company, was a detractor in the quarter. Recent protests in Hong Kong have hurt local business sentiment, and the gap between spot rent and in-place rent, which drove strong positive rental reversion in the past few years, has narrowed. Hotel operations are expected to weaken in the second half of the year, but as CK Asset doesn't have many high-end hotels and many of its properties have long-term contracts in place, it should perform better than its hotel peers. In August, CK Asset offered to acquire UK pub operator Greene King for 10x EBITDA. This deal is backed by real estate value as 81% of the Greene King estate is either freehold or long leasehold. CK Asset knows the target well and has leased pubs to Greene King since 2016. It is another step to build up quality recurrent income across the globe. Since the deal was announced and the Li family became unlocked, there have been frequent on-market share purchases by the family.

New World Development (NWD), a major Hong Kong conglomerate, was a detractor in the quarter. NWD's share price was under pressure in the quarter due to ongoing protests in Hong Kong. For the full financial year ended June, NWD's contracted sales have exceeded targets both for HK and mainland China. Rental income in HK increased by 12% YOY due to the full-year contribution of the K11 ATELIER office, which has achieved occupancy rates of around 80%. In late August, the K11 MUSEA shopping mall commenced operation, with over 95% of the project leased. There is an abundant pipeline of projects to be added over the years, which will further increase the company's recurring cash-flow. In terms of land banking, the company maintains its focus on the Greater Bay Area and has acquired over 1.5 million sqm GFA since 2016. NWD repurchased a total of 29.8 million shares in the last fiscal year and reiterated that no equity raising is needed in the foreseeable future.

SoftBank, Japan-listed telecom and internet investment firm, was a detractor in the quarter. The company reported +258% growth in attributable net income YOY during the quarter due to Vision Fund gains and sale of Alibaba shares. However, the stock has pulled back sharply after concerns regarding Uber's market valuation, WeWork's valuation, and debt concerns, and potentially tightening of regulations for the listing of Chinese stocks in the U.S.

SoftBank is the only Japanese company we know that publishes its value per share every day (https://group.softbank/en/corp/irinfo/stock/stock_value/). Taking into account SoftBank's stakes in Alibaba and SoftBank Corporation, the market is ascribing negative value to Sprint, Arm, and the Vision Fund at the current SoftBank price. WeWork has been a tough investment for SoftBank so far, but SoftBank's track record of delivering 43% IRR on internet investment portfolio over the last 18 years (even excluding Alibaba) is the reason why they were able to raise $100 billion for their Vision Fund.

SoftBank is run by owner-operator Masayoshi Son, who is focused on closing the discount to NAV. One of the recent examples is a partial sale of the domestic telco business (SoftBank KK) at attractive valuation (8.5x EBITDA) while repurchasing its undervalued shares.

Outlook

We expect volatility to continue. The U.S. has historically been a "protector" of democracy globally, but it has become much less predictable now. Asian countries are increasingly focusing their businesses on the region for solutions, rather than relying on the U.S. as a trading partner. This increasingly Asian-focused approach across the region, combined with country-specific issues in India and HK, are creating opportunities in multiple countries across the region today. Our Price-to-Value ratio is in the low 60s%, having dipped below 60% during the quarter, and our cash level is low, while our on-deck list is attractive.

See the following pages for important disclosures.

P/V ("price to value") is a calculation that compares the prices of the stocks in a portfolio to Southeastern's appraisal of their intrinsic values. The ratio represents a single data point about a Fund and should not be construed as something more. P/V does not guarantee future results, and we caution investors not to give this calculation undue weight.

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Fecha de inicio de la oferta: octubre 2019.
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(ii) La presente oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la Superintendencia de Valores y Seguros, por lo que los valores sobre los cuales ésta versa, no están sujetos a su fiscalización;
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