Longleaf Partners Asia Pacific UCITS Fund

Quarterly Summary Report

For the Quarter Ended
31 December 2020

Longleaf Partners Funds

Summary – 31 December 2020

4Q20

Longleaf Partners Asia Pacific UCITS Fund

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Longleaf Partners Funds

Long-Term / Concentrated / Engaged / Value

Founded in 1975, Southeastern Asset Management is an independent, global investment firm managing $10.5 billion. Partnership is core to all that we do, and Southeastern's employees and related entities are ththe largest investors across the funds advised by Southeastern. Our 14-person global investment team are generalists, tasked with finding the best bottom-up opportunities across the globe.

The Fund seeks to own a concentrated portfolio of our best 18-22 ideas that meet our Business, People, Price investment criteria. We invest with a 3-5 year investment horizon and take advantage of short-term volatility to own high quality businesses, run by capable management teams, whose stock prices are trading temporarily at a discount. Our extensive, global network allows us to engage with our management partners to help drive long-term value creation.

Holdings (22)

	Activity*	Weight
Baidu		8.5%
CK Hutchison		7.6
Jollibee		7.1
Melco International		6.4
HDFC		5.1
L'Occitane		4.8
GREE		4.8
MGM China		4.6
Tongcheng-Elong		4.5
Prosus		4.5
Dairy Farm	NEW	4.4
Richemont		4.3
Hitachi		4.0
WH Group		3.7
China Lesso		3.7
CK Asset Holdings		3.6
Trip.com		3.3
New World Development		3.1
Hyundai MOBIS		3.0
MinebeaMitsumi		1.5
Dali Foods Group		1.5
PNB Housing		0.1
Cash		5.9
Total		100.0%

*Full eliminations include the following positions: Midea Group

Fund Annual Returns

	Class I USD	MSCI AC Asia Pacific USD
2014	-1.30%	-1.39%
2015	-2.74	-1.96
2016	12.29	4.89
2017	37.94	31.67
2018	-21.45	-13.52
2019	18.58	19.36
2020	10.97	19.71

Share Class Information

	Class I USD	Class I GBP
Bloomberg Ticker	LPAPIUS	LPAPIGB
ISIN	IE00BSL7D176	IE00BWB99J19
Inception Date	2 December 2014	15 September 2017
Minimum Purchase	$1,000,000	$1,000,000
Expense Ratio	1.50%	1.51%
NAV per share	$11.18	£15.37

Performance Total Returns

	Class I USD	MSCI AC Asia Pacific (USD)	Class I GBP	MSCI AC Asia Pacific (GBP)
Three Months	19.43	17.82	12.70	11.43
Year-to-date	10.97	19.71	7.50	16.01
One Year	10.97	19.71	7.50	16.01
Three Year	3.36	23.57	1.82	22.29
Annualized	1.11	7.31	0.60	6.94
Five Year	60.10	70.67	N/A	N/A
Annualized	9.87	11.28	N/A	N/A
Since Inception	53.70	64.99	9.72	32.29
Annualized	7.33	8.59	2.86	8.88

Performance Contribution

Top Three	Portfolio Contribution	Return	Bottom Three	Portfolio Contribution	Return
Baidu	3.91%	71%	China Lesso	-0.59%	-12%
Jollibee	2.61	36	Dali Foods Group	-0.09	-6
HDFC	2.28	48	SoftBank	0.00	0

****Partial year, from inception of 2 December 2014**

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Longleaf Partners Funds

4Q20
Longleaf Partners Asia Pacific UCITS Fund

Sector Composition

Consumer Discretionary	42.5%
Consumer Staples	14.4
Industrials	12.8
Communication Services	8.5
Real Estate	6.7
Financials	5.2
Information Technology	4.0
Health Care	--
Materials	--
Energy	--
Utilities	--
Cash	5.9

Country Composition

Hong Kong	39.7%
China	24.8
Philippines	7.1
Japan	5.5
India	5.2
Netherlands	4.5
Switzerland	4.3
South Korea	3.0
Cash	5.9

Regional Composition

Asia Ex-Japan	79.8%
Europe Ex-UK	8.8
Japan	5.5
Cash	5.9

Longleaf Partners Asia Pacific UCITS Fund

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Longleaf Partners Funds

Longleaf Partners Asia Pacific UCITS Fund

Disclosure Information

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Asia Pacific UCITS Fund Commentary

4Q20

Longleaf Partners Funds

For Professional Investors Only

Portfolio Returns at 31/12/20 – Net of Fees

	4Q20	1 Year	3 Year	5 Year	Since Inception 2/12/2014
APAC UCITS (Class I USD)	19.43%	10.97%	1.11%	9.87%	7.33%
MSCI AC Asia Pacific Index (USD)	17.82%	19.71%	7.31%	11.28%	8.59%
Relative Returns	+1.60%	-8.73%	-6.20%	-1.41%	-1.26%

Selected Indices*	4Q20	1 Year	3 Year	5 Year
Hang Seng Index (HKD)	16.24%	-0.46%	0.11%	8.06%
TOPIX Index (JPY)	11.16%	7.40%	2.15%	5.49%
TOPIX Index (USD)	13.62%	13.26%	5.13%	8.82%
MSCI Emerging Markets (USD)	19.70%	18.31%	6.17%	12.80%

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

Longleaf Partners Asia Pacific Fund (the "Fund") reported a strong fourth quarter, returning 19.43% and outpacing the MSCI AC Asia Pacific (MXAP) Index's 17.82%. The Fund ended the year with a 10.97% gain, a satisfactory absolute return, but a disappointing relative performance outcome versus the Index's 19.71%. Two themes dominated 2020 performance: the first quarter was overwhelmingly driven by COVID-19 fear and stock price volatility, and the remainder of the year was driven by economic recovery, fueled by massive fiscal and monetary stimulus, and a significant drop in bond yields. The Fund was down around 34% at the height of the panic in March and rose almost 70% from the bottom by the end of the year.

Our 3Q letter highlighted the tightly "coiled spring" nature of the portfolio at the end of September. A partial "uncoiling" resulted in a strong recovery, as many of the same stocks that hurt the most in the first half drove outperformance in the second. Our overweight to Hong Kong (and our holdings' relative underperformance) was the largest single relative detractor to returns and accounted for all of our underperformance relative to the Index in 2020.

Currency was a tailwind for the year, as the last decade's remarkable dollar strength finally started to reverse. Still, the Index benefited more from this tailwind given its larger

Japanese yen weighting, as the yen appreciated 5% against the US dollar. For all the volatility and drama of 2020, the Fund's NAV finished the year up almost 11%. We believe the steps we took to improve the portfolio over the year have left it well-positioned, and we think there are substantial "coiled springs" left to deliver strong future performance.

Performance Review

The largest absolute and relative detractor for the year was our exposure to Hong Kong-listed businesses. As we discussed in detail in our 3Q letter, Hong Kong has stood out as a relative performance laggard this year. It has faced continued tensions between the US and China, social instability from increasing Chinese control over the territory, COVID-related lockdowns, and border closures in 2020. Technology and Biotech companies that operate mostly in mainland China – which recovered first from COVID – outperformed older economy sectors within the Hang Seng index. Utilities, Banks, and Properties underperformed, as they were most affected by the closure of borders to Mainland Chinese visitors and lockdowns. Our holdings in two CK group companies, CK Hutchison and CK Asset, and our Macau exposure through Melco International and MGM China accounted for all of the Fund's underperformance relative to the benchmark.

2020 Performance Drivers for Hang Seng Index (in Local Currency)

Source: Bloomberg

Even in the face of the challenging and worsening environment over the last two years, our confidence in the Hong Kong listed businesses that we own (the two largest of which, Melco International and CK Hutchison, are discussed below) has remained strong. In each case, we have management teams who think and act like owners doing all they can to get their businesses' underlying value recognized by the market. We believe insider buying and share repurchases led by proven capital allocators we respect are a good indicator of our portfolio's attractiveness. 2020 marked a year where we saw both of these utilized in a significant manner.

The Li family, the largest shareholder of CK Asset and CK Hutchison, spent close to $550 million in the last 18 months buying shares of the two companies. In November, CK Hutchison agreed to sell its European telecom tower network for €10 billion; worth 31x EBITDA, equating to almost 43% of the market capitalization of CK Hutchison. The first tranche of the transaction closed in December, and we expect the company to use some of the €2.1 billion of proceeds for value-accretive share repurchases. Management took advantage of the harsh energy environment and merged its oil business Husky Energy with Cenovus Energy to create an integrated Canadian oil and natural gas company with substantial synergies in the fourth quarter. Furthermore, in December, CK Hutchison entered into a Memorandum of Understanding with Ooredoo to merge their Indonesian mobile telecom businesses. We believe CK Hutchison will continue to explore opportunities to consolidate the telecom industry in Europe to achieve scale synergies.

Lawrence Ho, Melco's Chairman and CEO, spent over $60 million in 2020 buying shares personally in Melco International. The Macau operating environment was extremely challenging for Melco and its peers, with industry gross gaming revenue (GGR) declining between 90-97% year-over-year (YOY) in the second and third quarters. With travel restrictions between Macau and Mainland China beginning to ease in mid-August, we started to see a gradual recovery of Macau visitation and GGR. In the most recent quarter, the company reported lower than expected EBITDA losses, driven by further cost reductions, market share gains, and better luck. Melco cut its daily operating costs by over 40% in just a few months, further lowering its cash breakeven point. This improvement was driven by prudent cost-cutting and a favorable mix shift towards higher-margin mass market business. We believe the availability of vaccines, further easing of travel restrictions, and improving customer confidence will help drive a sustained recovery in Macau. We expect Melco will emerge stronger post-COVID given Lawrence Ho and his team's strong execution and the company's solid position in the premium mass segment.

We believe the heavily value-oriented nature of our Hong Kong and Macau investments will benefit from the re-opening of borders, relaxation of lockdowns, and any shift away from the past decade's growth mania.

The Hang Seng Index return of -0.5% for the year contrasted starkly with a particularly strong performance in Mainland China, with the CSI 300 index up 30%. China was the largest positive contributing country in our portfolio (and the Index) for the year, contributing more than 100% of our annual return. While this may sound surprising for a value manager, the performance was driven by our investments in Chinese internet companies Baidu and Tencent (held via holding company Prosus). Baidu was first purchased in 2015 when its share price was highly discounted. Even after returning over 70% this year, the company trades at an attractive discount to our growing appraisal value and offers significant upside from here. We believe that its core search and newsfeed business is trading at an attractive 10x free cash flow.

Baidu stands out not just for its stock price performance, but also for management's value-accretive actions in the last quarter. Not only did Baidu increase its buyback program from one billion to three billion dollars in August, but it further increased it to $4.5 billion in December. Operationally, the adjusted EBITDA margin for Baidu's core advertising business continued to expand, and its adjusted EBITDA grew 31% YOY in the third quarter. Baidu also agreed to acquire YY, JOYY's China live streaming business, at an attractive 8x earnings. YY is the pioneer in Chinese live streaming. YY has the business and technological know-how, but lacks new user growth. YY offers Baidu immediate operational experience in operating a large live video community and has many performers on the platform. YY has 10x more performers on its platform than Baidu has, but Baidu has 10x more users on its ecosystem platform. We expect synergies to be significant, and YY to increase Baidu's monetization of its massive user base. Furthermore, Baidu is progressing with monetizing and accelerating its Apollo automotive artificial intelligence program and established a joint venture with Zhejiang Geely Holding Group to produce intelligent electric vehicles.

We took advantage of 1Q volatility in Asian markets to purchase Prosus, which was formed when South African company Naspers spun out its 31% stake in Tencent in September 2019 into a Netherlands-listed holding company. We had long admired Tencent, but never could get comfortable with the shareholder-unfriendly South African structure under Naspers. The years of work by multiple research team members across Asia, Europe, and the US on Tencent, Naspers, and Prosus meant that we were well prepared when the pandemic started and the Prosus share price dramatically decoupled from the underlying Tencent value. Today, despite the share price appreciation since our initial investment, Prosus remains attractively valued. During the fourth quarter, Prosus announced a $5 billion program to repurchase shares and acquire discounted shares of its parent, Naspers.

"This is a further step to crystalise value for shareholders. It follows earlier actions such as the unbundling of MultiChoice Group and the listing of Prosus on Euronext Amsterdam last year. The purchase of Naspers and Prosus shares also represents a meaningful investment in the group's strong internet portfolio. It is regarded as a good use of capital, given full market valuations evident in consumer internet M&A and the group's sizeable consolidated discount to net-asset-value (NAV)." Prosus press release, October 30, 2020.

Market Review

2020 was an extraordinary year. The S&P 500 achieved new highs, the Nikkei 225 index also reached post-1989 bubble highs, and real yields for the 30-year US Treasury bond turned negative. The broad trends that have defined the past decade continued: Growth indices over Value, US markets outperforming Non-US markets (including Asia), continued strength in fixed income, and further rate and quantitative easing by central banks globally.

Global Index Total Returns

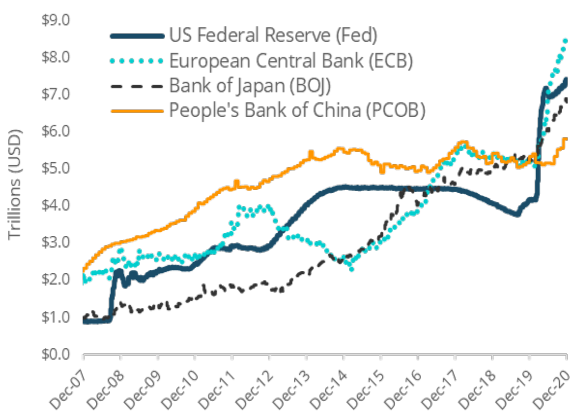
31-December-2020 (in USD)

Index	December	4Q	1 Year	2 Year	3 Year	5 Year	7 Year	10 Year
S&P 500	3.8	12.1	18.4	24.8	14.2	15.2	12.9	13.9
S&P 500 Value	3.5	14.5	1.4	15.6	6.8	10.5	8.7	10.7
S&P 500 Growth	4.1	10.7	33.5	32.3	20.5	19.0	16.4	16.5
Value Better/(Worse) than Growth	(0.6)	3.8	(32.1)	(16.7)	(13.7)	(8.5)	(7.7)	(5.8)
MSCI World	4.2	14.0	15.9	21.6	10.5	12.2	9.2	9.9
MSCI World Value	3.6	15.7	(1.2)	9.7	2.4	7.1	4.9	6.8
MSCI World Growth	4.9	12.5	33.8	33.8	18.6	17.0	13.3	12.8
Value Better/(Worse) than Growth	(1.4)	3.2	(35.0)	(24.1)	(16.2)	(9.9)	(8.5)	(6.1)
MSCI AC Asia Pacific	5.8	17.8	19.7	19.5	7.3	11.3	7.6	6.4
MSCI AC Asia Pacific Value	6.6	19.4	6.8	9.9	1.9	7.0	4.4	4.2
MSCI AC Asia Pacific Growth	5.0	16.4	33.0	29.3	12.6	15.4	10.7	8.4
Value Better/(Worse) than Growth	1.6	3.0	(26.2)	(19.4)	(10.7)	(8.4)	(6.3)	(4.2)

Source: Morningstar

The explosion in liquidity in 2020 has helped drive global markets to their recent highs, with the expansion of central bank liquidity in 2020 just a partial measure of the total amount of liquidity currently sloshing around in the financial markets. Earnings multiples for equities climbed higher, the 30-year bond trades at a record 53x cash flow, and assets with no earnings like bitcoin appreciated over 300% last year (and is up over 40% in the first nine days of the year).

Total Assets of Major Central Banks



Source: Bloomberg

US Treasury General Account Liabilities

Source: US Federal Reserve: Liabilities and Capital: Liabilities: Deposits with F.R. Banks, Other Than Reserve Balances: U.S. Treasury, General Account: Week Average

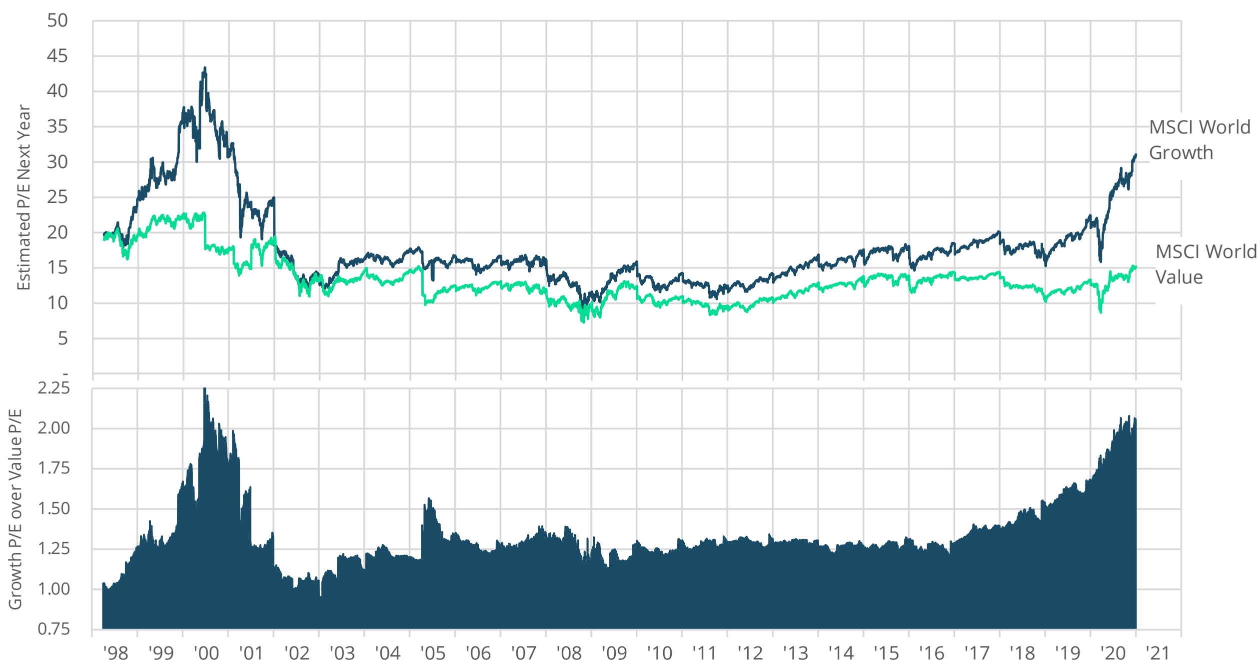
Being heavily weighted towards US equities and growth stocks has continued to pay off, as US equities handily outperformed non-US equities, and growth outperformed value by the widest margin since the tech bubble. The outperformance of growth relative to value accelerated this year, as real yields on the ten-year US Treasury turned negative and growth's outperformance has reached extreme levels not seen since the tech bubble.

A similar phenomenon occurred in the Asian capital markets. The MSCI AC Asia Pacific Growth index outperformed its value counterpart by 26% this year, again, the most since the tech bubble. The top ten contributors to the Asia Pacific index last year were all technology and internet companies. These ten companies, which accounted for 19% of the Index, contributed about half of the index returns. Excluding Samsung Electronics, this group trades at over 30x earnings, and excluding Alibaba, which is currently affected by anti-trust and geopolitical events, the group trades at 33x earnings. The top ten constituents of the Asia index constitute 20% of the Index, and by weighting, 89% of them are technology and new economy companies.

The premium of forward earnings multiples for growth stocks (31x) vs. value stocks (15x) in the MSCI World is now over 100% – at about the same levels reached during the tech bubble highs. Growth stocks trade at 4.5x sales, over three times that of value stocks, at a higher premium than during the tech bubble in 2000.

MSCI World Growth vs. Value Premium at Tech Bubble Highs

3/31/1998 to 12/31/2020 (in Local Currency)



Source: Bloomberg

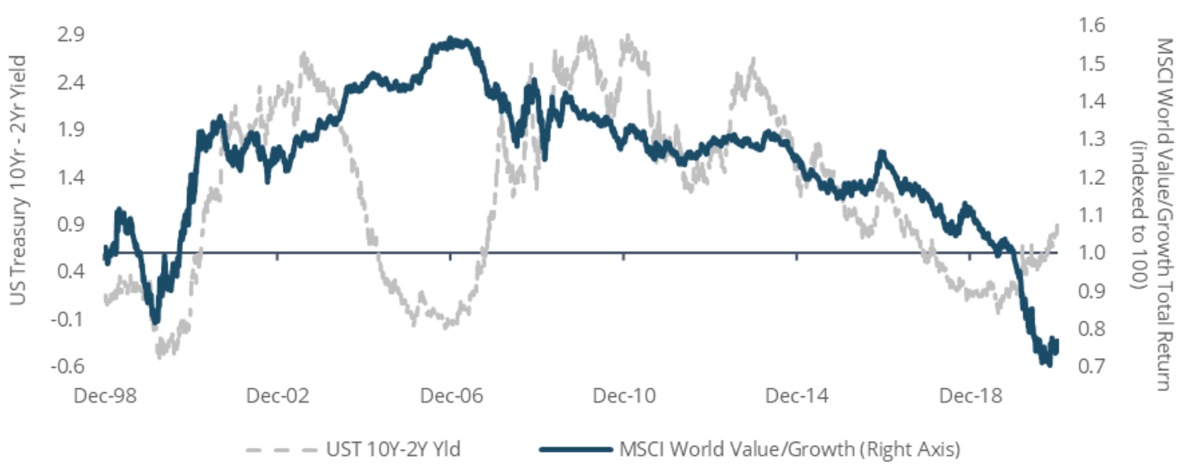
The hard truth of the math dictates that high multiples translate into low future returns for overpriced assets. Consider a long-duration asset with no cash flow for 19 years and a $20 payout in year 20. Reducing the discount rate from 10% to 5% increases the present value by 154%. This math may have been a significant factor for 2020 market performance, as the time value of money matters less in a low discount rate world. This is a one-time gain setting up for a low return future, or a reckoning. The present value of a $20 payout 20 years in the future suffers a 61% drop when the discount rates move from 5% to 10%.

While there are some Asian examples of the extreme overvaluation that results from this bending of the math, the effect is more muted outside of the S&P 500. Long-duration assets, whether long-dated bonds or fast compounding tech companies that typically have 100% of their value in the terminal value (FCF in the explicit forecast period is negative or negligible) — have been the biggest beneficiaries in the past decade. We have written at length in the last few years about growth outperforming value, the US outperforming all other markets, and ever-stronger US dollar (USD) themes that have dominated the market narrative for the last decade. The extraordinary bull market in US equities has now compounded over the last 12+ years to a 434% total return (with dividends reinvested into the S&P 500 Index), while the MSCI AC Asia Pacific Index has generated 199% over that same period. These backward-looking returns make it easy for investors to forget that the prior decade ending in 2008 saw Asian markets handily outpace US markets by almost 50%. US outperformance reversed this year, with the MXAP returning 19.7% vs. the S&P 500's 18.4%. Asian outperformance accelerated in the fourth quarter, with the MXAP gaining a 5.7% return advantage over the US markets.

Although the US large-cap growth trend continued for the first nine months in 2020, we believe this dynamic is finally near a breaking point and that Asian equities, in particular, are primed to outperform. The strong US dollar trend has started to reverse, with the JP Morgan Asia Dollar Index (ADXY) up almost 4% for the year. However, the US dollar is still rich, with plenty of room to act as a tailwind. Asian markets continue to be relatively cheap, faced with continued geopolitical (and virus) uncertainty within emerging markets broadly.

MSCI World Value/Growth vs. Yield Curve

1/31/1999 to 12/31/2020 (daily in USD)



Source: Bloomberg

The extreme disparities between growth vs. value returns and US vs. Asia capital market returns, gives us confidence that we are closer to a reversal of this extended trend. We saw a glimpse of this in the fourth quarter, as interest rates began to rise, and the yield curve steepened. In Q4, value outperformed growth in the global equity markets, and Asia beat the US by 570 basis points. Furthermore, Asia value outperformed Asia growth by 300 basis points and outperformed the US markets by 728 basis points. Using the 10-2 US Treasury Yield Spread as a proxy for yield curve steepness, the chart below shows that historically a steepening yield curve has been positive for value relative to growth, perhaps reflecting the time value of money dynamic referenced above.

Performance Review

4Q20			2020		
	Contribution to Portfolio Return (%)	Total Return (%)		Contribution to Portfolio Return (%)	Total Return (%)
Top Five			Top Five		
Baidu	+3.91	+71	Baidu	+4.01	+72
Jollibee	+2.61	+36	Prosus	+3.85	+58
HDFC	+2.28	+48	Jollibee	+2.99	+44
L'Occitane	+1.78	+45	SoftBank Group*	+2.93	+46
MGM China	+1.40	+39	Man Wah*	+2.68	+80
Bottom Five			Bottom Five		
China Lesso	-0.59	-12	Melco	-2.99	-30
Dali Foods	-0.09	-6	Ebara**	-2.92	-41
New World Development	+0.03	+0	CK Asset	-1.64	-24
WH Group	+0.08	+4	CK Hutchison	-1.18	-22
PNB Housing	+0.11	+9	First Pacific**	-0.81	-46

*sold in 3Q20, **sold in 1Q20.

Top Performers:

Baidu (+3.91%, +71%)

Baidu, the dominant online search business in China, was the top contributor in the fourth quarter and over the course of 2020. Baidu's search advertising business was negatively affected by the pandemic this year. While the lockdown increased users' time spent online and brought more traffic to the platform, it also hurt advertisers' budgets, as companies cut costs in a difficult environment. As China began to see success in controlling the pandemic, there was a robust sequential recovery in Baidu's business. Baidu delivered margin expansion, benefiting from both positive mix change and more disciplined ROI-driven spending. The non-advertising business also made progress in the year. In September, Baidu raised equity financing for its DuerOS smart speaker business at a valuation of RMB 20 billion. In November, Baidu opened Apollo Go robotaxi services in Beijing, the third city in China where passengers can call a robotaxi from Baidu Maps. Baidu announced its intention to acquire JOYY's live streaming business in China. JOYY, the pioneer and leading live streaming platform in China, would strengthen Baidu's live streaming operation and expand the non-advertising offerings in its ecosystem.

Jollibee (+2.61%, +36%)

Jollibee, the largest restaurant chain in the Philippines, was a top contributor for the quarter and 2020. Jollibee showed a varying pace of recovery during the quarter. Its domestic business remained challenged, while its international business, a growth driver for Jollibee, showed meaningful improvements. In the third quarter, its domestic system-wide sales declined by 48% YOY primarily caused by social distancing measures in the restaurants and reduced public transportation, effectively decreasing the dine-in capacity by 50-70%. Unlike in other developed countries, the Philippine delivery business's growth was not enough to offset dine-in sales decline. Most of Jollibee's consumers in the Philippines are low-to-middle-income customers who still find delivery charges too high. For the international business, system-wide sales excluding Coffee Bean & Tea Leaf (CBTL) declined by 10% YOY, showing sequential improvement. Despite the challenging operating environment, Jollibee's pre-IFRS EBITDA, excluding business transformation costs, turned positive. In September, most of its businesses were registering positive operating income except Smashburger, CBTL US, and Pho24, thanks to its ability to reduce costs by rationalizing underperforming stores, the supply chain, and rightsizing the labor force. With the normalization of the operating environment and turnaround of Smashburger and CBTL, 2021 should be a better year. Despite the recent sharp rise in the share price, we are encouraged by Jollibee's founder Tony Tan buying shares, which we believe reflects the attractiveness of the share price and his positive view on the company's outlook.

Housing Development Finance Corporation (+2.28%, +48%)

Housing Development Finance Corporation (HDFC), the largest non-banking financial company (NBFC) in India, was a contributor for the quarter. HDFC generated strong core pre-provisioning operating profit, which grew 26% YOY in the quarter ended in September, beating the consensus. Individual loan application receipts grew 12%, and loan approvals grew 9% YOY. On top of the structural housing loan demand growth given the demographics (the average home buyer is 39-years old in India and 2/3rd of the

Indian population is below 35-years old), the strong growth in disbursements was also driven by low interest rates, a reduction in stamp duties in some states from 5% to 2%, and discounts offered by developers to clear housing inventory.

HDFC's loan collection of individual mortgages was at a healthy rate of 96% after the moratorium was lifted. Credit costs have declined meaningfully as the company front-loaded provisions in the last two quarters (INR4.36bn provisions in the second quarter compared to INR11.99bn provisions in the first quarter). The third quarter's loan disbursement growth was strong at 26% YOY growth, compared to a 5% YOY decline in the second quarter. Despite some concerns over the sustainability of strong individual loan disbursements, we believe it can continue to compound at a mid-to-high teens rate in the foreseeable future given—improved affordability, a low mortgage to GDP penetration, favorable demographics, urbanization trends, government incentives to increase housing ownership, and attractive interest rates. With its solid track record of prudent underwriting and risk management, we believe HDFC is positioned to gain market share as weaker NBFCs fizzle out in the post-COVID world.

L’Occitane (+1.78%, +45%)

L'Occitane, the natural and organic-based cosmetics company, was a contributor for the quarter. Its sales decline narrowed significantly to -4.5% YOY in the September quarter compared to -22.2% YOY in the June quarter, beating market expectations. It reported strong sequential improvement, with Asia leading the recovery. During the September quarter, China/Taiwan/Korea sales were up 35%/19%/50% YOY, respectively. Despite the market's concerns on operating deleverage given L'Occitane's business model of operating retail stores, its operating margin was resilient and only declined 40bps YOY for the six months ending September. The operating deleverage impact was offset mainly by increasing higher-margin online sales and cost reduction measures. Despite disruption in the cruise ship and spa businesses, Elemis sales also showed sequential improvement to -15.7% YOY compared to -28.8% YOY in the previous quarter due to a strong product launch in China and Russia. Management expects Elemis' 30.5% operating profit margin to be sustainable. We are encouraged that the company's sales progress in the second half (FY March year-end) is improving. Sales turned to positive mid-single digits growth in both October and November, driven by strong sales recovery in Asia, posting double-digit sales growth despite weakness in Hong Kong.

MGM China (+1.40%, +39%)

MGM China, one of the six Macau gaming concessionaires, was a contributor for the quarter. It posted an EBITDA loss of US$94mn during the quarter. Its GGR declined by 94% YOY, which was in-line with the industry's 93% YOY fall. MGM China had a solid start in 2020, generating $2.5mn EBITDA per day in the first three weeks of January before the COVID-related disruption. The operating environment has since been extremely challenging for MGM China and its peers throughout the year, with industry GGR declining 90-97% YOY during the peak of disruption. With the travel restrictions between Macau and Mainland China beginning to ease since mid-August, we are seeing some recovery of Macau visitation and GGR. It is encouraging to see both of its properties achieving EBITDA breakeven and its premium mass business showing a positive trend in October and November. We believe the company manages its liquidity position well and that it has enough liquidity to operate, even if they had to withstand nearly two years of zero revenue. We believe the worst is behind us with vaccine availability, the further easing of travel restrictions and improving customer confidence in traveling. We are not expecting a V-shape recovery any time soon. Still, the Macau gaming business's long-term fundamental attractiveness is intact, and MGM China is well-positioned to benefit from recovery with its newly opened Cotai resort with normalization.

Bottom Performers:

China Lesso (-0.59%, -12%)

China Lesso, the largest plastic pipe manufacturer in China, was a detractor in the quarter. The pandemic and lockdown in China halted many projects in the first quarter and caused its sales to decline double digits. However, the recovery since the second quarter was robust, and the company reported first-half revenue up 3% YOY. Management shared that the growth momentum continued in the second half, and the company expects double digits revenue growth for the full year, which is above our expectations. Recently, the government tightened policy towards Chinese real estate developers, coupled with worries about a potential cash crunch for Evergrande Group, a developer with high leverage, led to share price weakness for the whole sector in the last quarter. China Lesso has a diversified customer base with low concentration risk. Evergrande only represents 1-2% of China Lesso's revenue and its top five customers combined represent less than 5% of revenue. Furthermore, its infrastructure-related revenue is already almost half of its direct sales, reducing exposure to the real estate sector, and will present a more significant incremental revenue driver in the future.

Dali Foods (-0.09%, -6%)

Dali Foods, one of the largest domestic manufacturers of snack foods and non-alcoholic beverages in China, was a detractor in the quarter. Dali Foods' business was disrupted by the pandemic this year. In the first half, both sales and profits were down by high single digits YOY, yet in the second half, the business recovered transitioning into growth territory. With net cash of over US$1.7 billion or over 20% of its market capitation, Dali Foods has a rock-solid balance sheet that can help the company manage through any macro and pandemic induced volatility. The company is looking to acquire consumer franchises that could generate significant synergies at a reasonable price. When executed, this would provide another earnings driver for the company. Dali Foods has a strong track record of product innovation that meet consumer demand. The soy milk business, which started in the second half of 2017, is expected to deliver close to two billion RMB in sales in 2020. The short shelf-life bread business, which began operations in the fourth quarter of 2018, is expected to deliver one billion RMB sales in 2020. Comparable businesses listed in the A-share market are valued at much higher multiples. We believe Dali Foods, currently trading at about 10x cash flow (excluding cash), will provide a strong return to long-term shareholders.

Portfolio Activity

2020 was a busy year for the team, adding nine new investments and exiting nine investments over the course of the year. This is in large part tied to taking advantage of the pandemic induced volatility to buy businesses at very attractive prices and funding those purchases from sales of higher priced strong performing companies.

Over the course of the year, we bought Prosus, Gree Electric, China Lesso, Tongcheng-Elong, Jollibee, Dairy Farm, HDFC, and PNB Housing Finance, as well as one "recycle" (a company we have successfully invested in previously), Dali Foods.

In the fourth quarter, we made one new investment – Dairy Farm – described below, and exited Midea Group as the price approached our value.

Dairy Farm

Dairy Farm is a Hong Kong-based retail conglomerate listed in Singapore, operating in grocery retail, convenience store, health & beauty, and home furnishing formats in multiple Asian countries. It has exposure to China and Philippine retail via its 20% stake in one of China's largest supermarket operators, Yonghui Superstores, and a 20% stake in Robinsons Retail, one of the largest diversified retail operators in the Philippines. Dairy Farm also has a 50% stake in Maxim's, a Hong Kong-based pan-Asian operator of restaurants, cafes, bakeries, and catering operations. Together with its associates and joint ventures, Dairy Farm operates over 10,500 stores in 12 Asian markets.

Dairy Farm's Hong Kong business generates significant profits from Chinese visitors, and it was negatively impacted by social unrest, beginning there in 2019. In 2020, the business was further challenged by COVID, as other major markets such as Singapore, Indonesia, Malaysia, and the Philippines, were in lockdown.

In the past, Dairy Farm's share price and financial performance have been weak due to years of mismanagement, under-investment in IT, misallocation of capital, and most recently due to COVID.

Dairy Farm has multiple valuable brands, including Wellcome, Giant, Mannings, and 7-Eleven, among others, which have historically been run as a series of small businesses without shared learning, functional specialization, or the consistency of scale and expertise. The structure carries with it a lot of inefficiencies and duplicative SG&A costs.

However, we think Dairy Farm's business is improving under the leadership of CEO Ian McLeod. He has a solid track record of turnarounds, including his experience of turning around Australian supermarket retailer, Coles. Dairy Farm announced a three-phase multi-year plan in 2018 and began to implement changes. McLeod's early efforts were focused on building out a new leadership and middle management team. With a stronger team in place, significant progress has been made in multiple areas.

- Group structure: Company management reorganized the businesses into a more streamlined and centralized structure with regional hubs based in Hong Kong for North Asia and Singapore for Southeast Asia to collectively benefit from scale leverage, functional specialization, and strong regional leadership.
- Store formats: The company stopped building hypermarkets, recognizing that this format would not deliver appropriate returns. Dairy Farm introduced pilot stores,

redefining space allocation and trialing format innovations that place greater emphasis on fresh food and demographic range optimization.

- IT system: The company is rolling out an SAP system and improving IT infrastructure.
- Supply chain efficiency: It is overhauling supply chain and product sourcing, significantly improving stock turns, and reducing food waste. The management team is also working on centralized procurement and leveraging scale. The company introduced centralized procurement, which is now utilized for ~60% of the volume that goes through collective negotiation.
- Private brands: Dairy Farm launched a unified private brand called Meadows. Previously, the company had over 20 different private brands, causing confusing for customers. Meadows products are in general priced ~20% lower than substitutes, have been well accepted by customers, are margin accretive, and the penetration is still only single digit.
- Loyalty program: The company introduced a customer loyalty program called YUU in July. YUU is Hong Kong's biggest rewards club with around 2.8 million users. It allows users to collect points while spending across greater than 2,000 stores and ten brands in Hong Kong, including 7-Eleven, IKEA, Wellcome, Mannings, KFC, and others. YUU will strengthen customers' stickiness, drive cross-spending across banners, and build a stronger long-term relationship with customers.

Because of COVID, management's efforts are not visible in the results, but the impact of turnaround will be visible once things begin to normalize. We understand the market's concerns on Dairy Farm given the historical mismanagement and disruption from social and COVID-related unrest in Hong Kong. However, we think most of the concerns are reflected in the share price, and the risk/reward profile is attractive. Valuing the company's stakes in publicly listed Yonghui and Robinsons Retail at market prices, we effectively paid a low single-digit multiple of depressed EBITDA for its underlying business.

Outlook

The price-to-value (P/V) ratio of the portfolio remains attractive at 70%. The current cash level is less than 5%, as we are in the middle of recycling cash from more fully valued investments into new opportunities. We are deploying the cash at a measured pace into one new opportunity and evaluating numerous potential investments with a healthy on-deck list.

While the COVID-influenced whipsaws of 2020 continued to favor the momentum drivers of the last decade, we would not be surprised if this were the last gasp of the cycle. We believe undervalued Asian companies and currencies are set to outperform the US markets like they did in 2020 and begin to narrow the historic dispersion between value and growth. The Fund beat the MSCI AC Asia Pacific Value index by 280 basis points per year over the last five years and by 420 basis points last year.

Prospects for an economic recovery this year have improved with the approval of several COVID vaccines. While US-China relations are at decade lows, we expect the Biden administration to be more constructive in its dealings with China and cooperate more with US allies rather than stick to an "America First" policy. While the world is facing another spike in COVID infections, Asia stands out with its ability to control the pandemic most effectively. It will continue to drive global economic growth.

We wish you all the best for a safe and healthy New Year and thank you for your continued faith, trust, and partnership during this highly volatile environment.

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