Asia Pacific Strategy Commentary

2Q20

Southeastern Asset Management

For Institutional Investors Only

The strategy returned 19.82% in the quarter, outpacing the MSCI AC Asia Pacific Index's 15.94% in the period.

Portfolio Returns at 6/30/20 – Net of Fees

	2Q20	YTD	1 Year	3 Year	5 Year	Since Inception 10/31/2014
APAC Strategy	19.82%	-10.54%	-6.48%	-1.62%	4.28%	3.38%
MSCI AC Asia Pacific Index	15.94%	-6.42%	1.04%	3.19%	4.02%	4.39%
Relative Returns	+3.88%	-4.12%	-7.52%	-4.81%	+0.26%	-1.01%

Past performance does not guarantee future results.

Selected Indices*	2Q20	YTD	1 Year	3 Year	5 Year
Hang Seng Index	4.64%	-11.98%	-11.80%	1.57%	1.95%
TOPIX Index (JPY)	11.24%	-8.19%	3.08%	1.22%	1.36%
TOPIX Index (USD)	11.18%	-7.29%	3.12%	2.62%	3.92%
MSCI Emerging Markets	18.08%	-9.78%	-3.38%	1.90%	2.86%

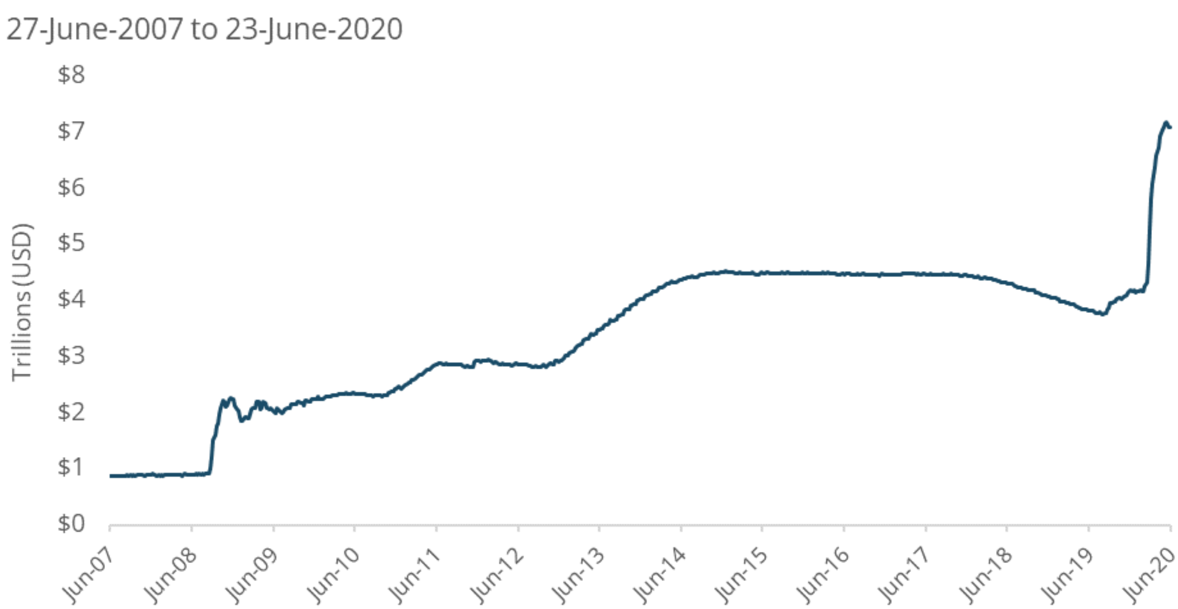
*Source: Bloomberg; Periods longer than one year are annualized

After a challenging first quarter, capital markets across most asset classes staged a V-shaped recovery in the second quarter. Fueled by an unprecedented amount of liquidity injections by central banks and record fiscal stimulus worldwide, markets seemed to look past surging unemployment, an inevitable collapse in near-term corporate earnings and fear of COVID-19 second waves, and focused instead on the reopening and recovery narrative.

As shown in the chart below, the US Federal Reserve printed close to 3 trillion dollars between early March and mid-June, expanding its balance sheet by 70%, and throwing it at the markets. The Fed further assured the markets that it firmly stands behind ensuring stability and will not run out of ammunition in doing so. According to economic research firm Gavekal, "In the US, the fiscal response to the COVID crisis so far amounts to 20x the Marshall Plan, or 5.5x the New Deal (in constant US dollars)." https://blog.evergreengavekal.com/towards-more-of-the-same/

Interest rate cuts globally shifted the yield curve downwards and further reduced the discount rates used to price risk assets. We continue to use 9% to discount future cash flows in our appraisals, with higher discount rates in selected emerging markets. The US 10-year Treasury is yielding 65 basis points, and the 10-year inflation-indexed Treasury (TIPS) is yielding negative 75 bps. The Austrian government recently issued a 100-year bond at 85 bps, which is now yielding less than 70 bps. Investors are paying over 140x earnings for an Austrian government bond with zero likelihood of any growth in coupons!

Federal Reserve Balance sheet (in Trillion USD):



Source: Board of Governors of the Federal Reserve System (US), Assets: Total Assets: Total Assets, retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/WALCL, July 6, 2020.

In the context of ever-higher liquidity, an almost zero risk-free rate, and falling credit spreads, we believe there is no better alternative than equities. However, after dropping by 31% for the year through March 23, the S&P 500 staged a dramatic 39% recovery in a matter of weeks and ended the second quarter down just 3% for the year. The following tweet by Director of Research at Ritholtz Wealth Management Michael Batnick captured the sentiment well — "We've gone from recession to depression to recovery to euphoria in less than 100 days".

The MSCI AC Asia Pacific Index also marked the bottom for the year on March 23, down 29%. While we expected recovery from those oversold levels, the pace and magnitude of this V-shaped market recovery have surprised us. The index has recovered 31% since March 23 and is now down 6.4% YTD. We have rarely seen such a broad decoupling of the financial markets from economic reality. We are facing the worst pandemic in our lifetimes and the biggest economic contraction since the Great Depression…yet equity and fixed income markets remain strong.

We see numerous risks which may not be adequately discounted in broader markets today:

- Second Wave: As most countries emerge from various versions of lockdowns, there is a heightened risk of a second wave of COVID infections. We already see this in many countries, including China, India, and South Korea. Could we see rolling lockdowns if cases of new infections rise higher? The economic outlook for the rest of the year is shrouded in high uncertainty and hinges on avoiding a re-acceleration of the COVID outbreak.

- Geopolitics: The two biggest economies in the world are trading blows on the trade front, and their navies are playing chicken in the South China Sea. COVID has further strained the already tenuous relationship between the US and China. With the US presidential election in November, we see a higher risk of US-China tensions affecting business and macro sentiment. We believe that US-China relations will remain tense in the medium term, regardless of who is elected president of the United States. On another front, the two most populous countries (China and India) are literally trading blows along their shared border, and events have taken a dangerous turn in recent weeks with the first loss of life in four decades in skirmishes along the disputed border area.

- Real economic impact: Market sentiment is buoyed by enormous monetary and fiscal stimulus, but when this emergency support is retracted, only then will we know the actual effect of COVID on employment, consumer behavior, and corporate earnings. It is hard to determine the long-term impact of this pandemic on the consumer — will they spend now, or will they be frugal and save more for a rainy day? We might see higher levels of defaults and bankruptcies that would lead to higher levels of sustained unemployment. The economic recovery is more likely to be bumpy and gradual, rather than the V-shaped recovery we have seen in capital markets. Furthermore, the prospect of higher corporate and income tax rates, especially in the United States under a Biden administration, will be a further headwind to the equity capital markets.

- Liquidity: Central bank support could wear thin both in magnitude and effectiveness. The liquidity injection was front-loaded — $2.3 trillion out of the Fed's $2.8 trillion stimulus was completed in the first month — and after the initial shock-and-awe response, it has tapered down as the marginal utility of every incremental stimulus dollar decreased.

- Vaccine: Markets have rallied on any early signs of vaccines or treatments, but it could be a while before we have a workable solution in place. Most health experts believe a vaccine could take many months to more than a year to complete clinical trials and then begin mass production and distribution.

- Inflation: It may be hard to imagine inflation in today's world of excess labor and manufacturing capacity, empty hotels, malls and office buildings, low energy prices, and demand contraction. However, we have a very powerful counterforce of global supply chain disruption and the trends towards more local production. Globalization and "offshoring" have probably been the most significant deflationary factors over the last two decades. But now, not buying the cheaper product made in China will mean buying a more expensive product made in the US. If there is a return of inflation, interest rates will likely go higher, impacting risk asset prices.

How have we positioned our portfolio, given the potential risks outlined above?

While we are very much bottom-up investors and focus on buying businesses, we are not blind to powerful macro trends. At all four levels — the Consumer, the Company, the Country, and the Currency — we believe Asia is attractively priced with a higher margin of safety, conservatively capitalized with financial flexibility, and a greater ability to compound value compared to the US and Europe. In the US, the government, corporates, and consumers suffer from excess leverage at all three levels, exacerbated by record fiscal spending at the government level, significant share repurchases and lackluster earnings growth at the corporate level, and high unemployment and little income growth at the consumer level. Asian countries have the fiscal space and external buffers in the form of international reserves to cushion the economic shock caused by the pandemic. In fact, Asian countries account for six of the top ten countries with the largest foreign reserves globally.

No central bank has been as aggressive in printing money as the Fed, with the Fed's balance sheet expanding by about $3 trillion in less than three months, and the US money supply growing ten times faster than the US nominal GDP growth rate. Such a vast supply of dollars is likely to lead to US dollar weakness over time. We would expect currencies that have not monetized the COVID crisis as aggressively as developed economies have to do well over time, which bodes well for Asian currencies and economies. With a substantial amount of emerging market (EM) capital spending still being financed in dollars, a weaker dollar will typically be favorable for EM growth. Asia EM is one of the few regions in the world left that provides investors with a positive real yield curve. We believe that Asian currencies are substantially undervalued relative to the US dollar, which should provide a tailwind for returns in Asia. The ubiquitous Big Mac is 38%, 53%, 45%, and 50% cheaper than a US Big Mac in Japan, India, China, and the Philippines, respectively. As shown in the chart below, Asian currencies have started appreciating relative to the US dollar since the Fed's stimulus initiation in late March.

Asia Dollar Index

Year to Date as of 30-June-2020

Source: Bloomberg

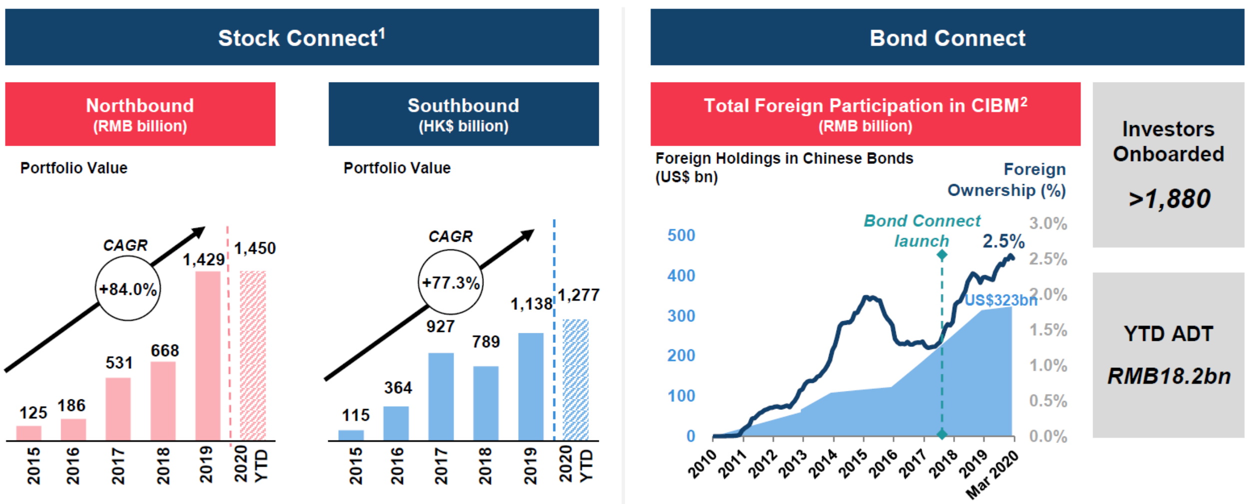
We increased our allocation to dominant Asian consumer companies, which we believe will continue to compound faster than GDP growth, in light of the risks outlined above. We believe the Asian consumer will continue to grow purchasing power, driven by secular growth trends of urbanization, a relatively young and growing population, growth of the middle class, access to credit, and premiumization. Some consulting firms believe that Asian consumers will drive 50% of all global consumption growth by 2030. In the case of luxury goods, Asian consumers already contribute the majority of incremental demand for brands like Richemont, LVMH, Chanel, and Hermes.

"Over the past two decades, global poverty has dropped dramatically. Some 1.2 billion people have been propelled into the consuming class, meaning that they have passed the income level at which they can begin to make significant discretionary purchases. This is one of the greatest economic success stories in history — and it is very much an Asian story." Source: McKinsey Global Institute – "Asia's Future is Now"

We increased exposure to Asian consumer companies that rely more on their local economies and currencies, are less dependent on trade, tariffs, and geopolitics, and have dominant market positions that bless them with pricing power. As discussed in detail below, all four companies (one undisclosed) purchased in the quarter demonstrate this domestic focus, market dominance, and economies of scale.

China imposed a new security law for Hong Kong, calling into question Hong Kong's status as an international finance center. This security provision is included in Hong Kong's Basic Law, but it has never been implemented. Hong Kong last tried passing it in 2003, but failed due to public opposition. After watching social unrest and protests increase over the past few years in Hong Kong, President Xi Jinping has taken ownership of this issue to give the People's Republic of China (PRC) the legislative support to restrict political dissent and to deal with any serious challenges to the Mainland's authority over Hong Kong.

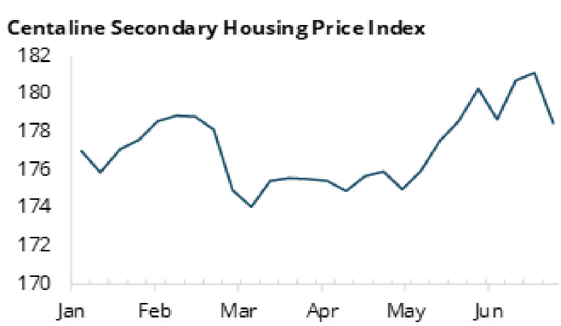
C | Transformational Growth from China's Opening



Source: HK Exchanges and Clearing Limited

Hong Kong is a critical financial hub for China, whose importance is growing rapidly. About 40% of Chinese IPO capital is raised via the Hong Kong markets, and about 50% of total international funds deployed in mainland China's capital markets are made via Hong Kong's stock connect program. We expect this to increase over time, as the US stock exchanges have become more hostile towards Chinese listing candidates. Massive secondary listings of Alibaba, JD.com, and NetEase in Hong Kong in the last few months have solidified Hong Kong's position as the primary international financial center through which global capital can invest in Chinese equities. We expect this to remain the case until Mainland China is prepared to eliminate capital controls. With the US passing laws that could potentially lead to the delisting of Chinese companies from US stock exchanges, China needs a stable Hong Kong now more than ever, where international capital feels safe investing in Chinese equities. China wants to end political dissent and the pro-democracy movement in Hong Kong, while retaining a "one country two systems" common law regime to ensure its status as an international financial hub. While the equity markets reacted negatively to this news, this action could be supportive of Hong Kong markets longer term, in as much as it sanitizes Hong Kong of political risk and leads to higher capital inflows from mainland institutions, more than offsetting any international capital that might leave the region.

Indeed, the stock market has regained lost ground, and the Hong Kong dollar is at the strong side of its trading band. With the recent large number of capital raisings on the Hong Kong stock exchange, the demand for Hong Kong dollars has increased. The Hong Kong stock exchange's market capitalization has hit record highs in anticipation of several massive IPOs of Chinese companies re-domiciling from the US to Hong Kong. As shown below, secondary home prices have also recovered in recent weeks. Most new residential project launches have seen high sell-through rates without much discounting, including our portfolio company, CK Asset, which saw a 99% sell-through rate at its Sea to Sky project in Tseung Kwan O district at elevated prices. Another portfolio company, New World Development, just sold two non-core properties for around $465 million at a 3.5% cap rate (~$3,100 per square foot).



Source: http://www1.centadata.com/cci/cci_e.htm

Source:Factset

India has been one of the worst-hit countries by the COVID pandemic. As we discussed in our Q3 2019 letter, the Indian economy was already struggling with a financial crisis (especially in the Non-Bank Financial Company = NBFC space) and forced deleveraging coming into 2020. The pandemic has made the situation much worse. The combination of a weak social safety net program, poor healthcare infrastructure, and a large unorganized sector has made India highly vulnerable to disruption by COVID. The Modi administration instituted one of the strictest and longest nationwide lockdowns globally to avoid overwhelming the fragile healthcare system. This lockdown has come with a considerable cost of lives and livelihoods. At the same time, the government's hands have been tied on the stimulus front, given fiscal deficit concerns, and a 20 trillion rupee stimulus package (10% of GDP) is more of liquidity injections and credit guarantees, rather than fiscal spending. In the March 2020 fiscal year, GDP growth fell to 4.2% compared to 6.1% in FY19. GDP is expected to contract by over 5% this year. Furthermore, tensions with China have escalated and will inevitably lead to more protectionism and a breakdown in trade relationships, further hurting growth prospects in the near term. An exodus of foreign capital has brought valuations in India down to more interesting levels. There is a saying that goes: "India does not change when there are better options. India changes when there are no options." The Modi government, having won an absolute mandate last year, is putting in place meaningful policy reforms that aim to bring growth back to its true potential, if executed correctly. We find ourselves spending more time searching for opportunities in India today than at any other time since the launch of this strategy.

PORTFOLIO CHANGES

Shifts in sentiment from optimism to hopelessness and back, short-termism, and a move towards passive investing (which does not discriminate on fundamentals and valuations) result in the extreme volatility that we observe in markets today. At market highs, everybody thinks the market or a stock is going higher, and crowds extrapolate the trend. At the lows, extreme pessimism takes hold that things are terrible, and can only get worse — crowds extrapolate this downward trend.

This volatility is our friend, as it allows us to buy strong franchises at discounted prices. In the second quarter, we continued to upgrade our portfolio on both qualitative and quantitative (price-to-value) fronts. It may be helpful to recap here what key characteristics we look for in our investments:

1. **Strong businesses**: We want to own businesses that can sustainably earn high returns on invested capital (ROIC) relative to their cost of capital and have attractive reinvestment opportunities (or a long runway for growth). Such businesses tend to have strong competitive moats and high barriers to entry. An economic moat could take the form of brand strength, intellectual property, a network effect, economies of scale (low cost), switching costs, etc. Such businesses are consistent compounders throughout the cycle.
2. **Good people:** We want to partner with owner-operators with skin in the game, who think and act in the best interests of shareholders. They are astute capital allocators focused on growing NAV per share (organically and/or inorganically) and closing the discount to NAV.
3. **Attractive valuations**: We are business appraisers — for every potential investment, we estimate the intrinsic value of the business based on our conservative expectations of its free cash flow generation capability. We want to invest with a sizable margin of safety — typically a 30-50% discount to our appraisal value. It is important to note that value growth (the compounding ability) is just as important as the Price-to-Value (P/V) ratio.
4. **Financial flexibility**: Financial leverage (especially when combined with operating leverage) can be fatal during down cycles. We want to invest in businesses that have the financial flexibility to survive crises and the willingness and ability to go on

offense in times like today because the best deals are often found during the worst times.

Strong businesses with smart managers are typically not on sale. But every once in a while, due to company-specific or broader macro reasons, prices correct to a point that offers us our desired margin of safety. We just need to be prepared and wait patiently. Given that we run a concentrated 20-company portfolio with a long-term horizon, our pipeline of opportunities is rarely dry. The fear side of extreme volatility this quarter offered us a chance to initiate four new investments (three are discussed below). These are high-quality franchises we have followed and admired for many years, which became competitive for our capital for the first time.

We funded these investments by exiting our investments in Seria and Toyota. Seria, the second-largest 100 yen store operator in Japan, was a beneficiary of the COVID pandemic driven by strong sales of masks, disinfectants, and home cleaning equipment, and delivered same-store sales growth that exceeded our expectations. The share price appreciated and closed the gap to our appraisal value. Toyota is arguably the most robust car manufacturer globally with best in class scale, products, R&D, and a fortress-like net cash balance sheet, but this business is highly capital intensive and has high operating leverage. We believe lockdowns, combined with a weak outlook for demand, will lead to low fixed cost absorption and margin dilution for all automakers. Furthermore, in a world fraught with trade tensions between most major economies, we believe production will increasingly become more local, and companies like Toyota, which have optimized a just-in-time global supply chain, will be at risk. Toyota's stock price was relatively more resilient, and we exited our position to invest in higher returning, more consistent compounders at lower P/Vs.

We trimmed Tongcheng-Elong and Man Wah after their strong performance on the back of a recovery in China's domestic consumption. We also marginally reduced our investment in Baidu, MinebeaMitsumi, and Trip.com after a surprisingly strong relief rally. We ended the quarter with around 8% cash, which is higher than usual. We are allocating some of this cash to new investments that we have initiated post-quarter. Any remaining cash balance will serve as dry powder in these volatile times, which we expect we can put to work quickly.

New investments:

Housing Development Finance Corporation: HDFC is the largest non-banking financial company in India with an unparalleled, long-term track record of growth and disciplined underwriting. HDFC and its affiliate, HDFC Bank, have been consistent compounders over the last two decades. HDFC's book value per share has grown at 18% CAGR during the previous ten years, return on equity (ROE) has been around 20%, and cumulative write-offs since inception (1977) are under 15 basis points of cumulative loan disbursements.

HDFC started as a specialized housing mortgage company in India. Beyond its core housing finance operations, HDFC has created numerous industry leaders over the last 20 years: HDFC Bank, HDFC Asset Management, HDFC Life Insurance, General Insurance (HDFC Ergo), and student lending business Credila. Under the leadership of Chairman Deepak Parekh, CEO Keki Mistry, and Managing Director Renu Karnad, HDFC not only created companies worth over $150 billion, but also helped enable the value discovery for most of these businesses by listing them once they reached critical mass. Each of these associates/subsidiaries is a market leader in its space with best-in-class operating metrics and management.

HDFC has the lowest cost of funds, highest asset quality, strongest capital position, and most efficient cost-to-income ratio (9%) of its peer group. While the near term looks challenging due to a decline in housing loan demand, asset quality issues in construction finance, and a central bank imposed moratorium, we believe competitors will struggle on the liquidity and solvency fronts, yielding market share to HDFC. Its associate HDFC Bank reported preliminary Q1 FY21 results with deposits up 25% YoY (up 4% QoQ) and loans up 21% YoY (up 1% QoQ) despite the weak macro context and COVID lockdowns. In the March quarter, when most of the financial sector was struggling with liquidity, HDFC Bank grew deposits by 800 billion rupees (~$11 billion) — the highest quarterly deposit growth in its 25-year history. HDFC is a major beneficiary of the flight to quality, which we expect will continue for the foreseeable future.

HDFC is a lending franchise we have always admired, but only from the sidelines. Even during the Global Financial Crisis, it traded at over 2x adjusted book value. HDFC and its listed entities have hit a rough patch lately due to severe macro conditions, and the NBFC crisis further aggravated by COVID. Carrying its listed holdings at market value (which were all down 20-30% themselves YTD), we paid around ~1x book value or 10x earnings for its core mortgage business. The core mortgage business can continue compounding at a mid-to-high teens rate long term given improved affordability, low mortgage to GDP penetration, demographics (the average home buyer is 39-years old in India and 2/3rd of the Indian population is below 35-years old), urbanization, government incentives to increase housing ownership, and attractive interest rates.

China Lesso: We initiated a position in China Lesso, the largest plastic pipe manufacturer in China during the quarter. China Lesso commands a 17% market share in China, while the second biggest player has less than 5% market share. This market position gives the company an unmatched scale advantage. Plastic pipes are bulky, and transportation costs create barriers to move products around. As a result, pipe manufacturers have a strong local competitive advantage within a certain distance from their manufacturing plants. China Lesso is the only player in China that has set up a nationwide production footprint with 25 plants in 16 provinces. While the company's national market share is 17%, it has more than 40% market share in Southern China, with 54% of its pipe sales from the region. Given its scale, China Lesso is a price leader in the plastic pipe industry. Its pricing power is reflected in its cost-plus model and stable margins. Since its IPO in 2010, China Lesso's gross profit margin has been steady at around 27%, with a net margin of about 11% while achieving double-digit revenue growth.

China Lesso was founded by Wong Luen Hei and his wife in 1996. Both of them remain heavily involved in the business today, and Mr. Wong's family owns about 68% of China Lesso. The COVID concerns in the broader market weakened the share price by 30% and provided an attractive entry point for us. Adjusting for the value of its Lesso Home segment, a collection of real estate investments that are still under development and not earning profits yet, we are paying around 10x FCF for this dominant plastic pipe business. We expect China Lesso to benefit not only from increased spending on infrastructure, but also from oil price declines, which reduce their raw material costs.

Jollibee Food: We initiated an investment in Jollibee Food Corporation (JFC), the largest restaurant company in the Philippines, with almost 6,000 stores worldwide – 3,528 Groupowned and franchised stores in the Philippines and 2,446 stores overseas. From humble beginnings as an ice cream parlor in the 1970s, JFC rapidly expanded through the organic growth of the Jollibee brand and a string of acquisitions of multiple brands, generating over $4.8bn system-wide sales last year. JFC is the dominant quick-service restaurant (QSR) player with over 50% market share (by store network) in the Philippines, larger than McDonald's and KFC in the region. Chairman Tony Tan Caktiong and his brother, CEO Ernesto Tanmantiong, who collectively own around 56%, run JFC as prudent owner-operators with good operation and execution capabilities. We like the company's focus on ROIC and the long runway for profitable growth opportunities in the Philippines and overseas.

Long an EM consumer franchise darling, we have been monitoring JFC as the stock price plummeted from a greater than 300 pesos per share level last year as a result of an earnings drag following the overseas acquisitions of Coffee Bean & Tea Leaf (CBTL) and Smashburger, operational issues at Red Ribbon Philippines in 2019, and COVID's broad negative impact on QSR players.

We believe in management's ability to turnaround the two acquired brands that have high potential with attractive store economics. Smashburger is already showing encouraging results since JFC management took full control last year, and its newly opened stores in better locations are posting much higher sales than old stores. JFC management also took over at CBTL this year and are making significant overhead cost reductions, aiming to achieve profitability this year. JFC fixed Red Ribbon's operational issues, and we believe the company can emerge stronger when things normalize after COVID, as smaller independent operators find it challenging to absorb the impact of the difficult economic conditions.

JFC has ample room to grow profitability in both domestic and overseas markets. In the Philippines, it is one of the few original burger franchises that was able to stave off McDonald's entry into the country and retain its dominant position. JFC generates healthy incremental ROIC in the Philippines, generating ROIC between 20-22% and, translating to a 3-4 year store payback (after paying franchise fees). We expect JFC's brands to continue their rapid growth, as the company is one of the principal beneficiaries of strong consumption growth in the domestic market, given its strong dominance and high-quality offerings at the right prices with a strong runway for continued growth in less penetrated areas beyond the main island of Luzon.

We are even more excited about JFC's overseas growth potential. JFC's expansion plans are skewed towards overseas markets, where its store penetration is much lower and where its stores generate higher ROICs than domestic stores. For example, in 2019, the Jollibee brand in Vietnam achieved ROIC of more than 20 percent, and both the Jollibee brand in North America and Highlands Coffee in Vietnam achieved ROIC of more than 30 percent, all well above JFC's cost of capital. The average ticket size and store revenues are significantly higher in developed markets, which contributes to two-year payback periods. Jollibee is sought after not only by Filipinos, but also by locals globally with its localized, quality food offerings at the right prices. We believe JFC's international expansion has just begun and is likely to compound over many years with high same-store sales (SSS) growth and aggressive store additions. JFC has a good track record of acquisition and execution — acquisitions lead to short-term earnings drag, but provide long-term growth potential and value from turnarounds. We are effectively paying <1x sales and <10x EBITDA for this consumer franchise that has higher ROIC and growth potential than other leading QSR players.

Performance Review

2Q20			YTD 2020		
	Contribution to Portfolio Return (%)	Total Return (%)		Contribution to Portfolio Return (%)	Total Return (%)
Top Five			Top Five		
Man Wah	+2.56	+74	Prosus	+2.00	+35
Melco	+2.23	+34	Tongcheng-Elong	+1.43	+27
SoftBank Group	+2.17	+44	SoftBank Group	+1.30	+20
Prosus	+1.82	+34	Man Wah	+1.20	+34
Tongcheng-Elong	+1.58	+28	Seria*	+0.77	+20
Bottom Five			Bottom Five		
WH Group	-0.10	-5	Melco	-2.69	-31
Jollibee	-0.08	-1	Ebara**	-2.30	-41
Undisclosed	0.00	+2	L'Occitane	-1.65	-29
China Lesso	+0.06	+7	CK Hutchison	-1.61	-30
CK Hutchison	+0.08	-1	Trip.com	-1.53	-22

*sold in 2Q20, **sold in 1Q20. Past performance does not guarantee future results. Holdings are subject to change.

TOP PERFORMERS:

Man Wah, the leading recliner sofa manufacturer in China, was the top contributor in the quarter. The financial year ending March 2020 was challenging due to tariff increases for US exports and demand shock in the March quarter due to COVID. Still, Man Wah was able to respond to changes and deliver results that exceeded market expectations. In the domestic market, Man Wah continues to maintain its dominant position in the recliner sofa space and further expanded its market share to 50%, compared to 45% a year ago. Man Wah has actively integrated its online-offline channels and delivered strong growth since April, driven by both pent-up demand and increased penetration of recliners during the lockdown. Overseas markets are lagging China in the post-COVID recovery, but the company's offshore business represents a small portion of profits. Once the recovery starts, Man Wah's presence in tax-advantaged Vietnam will give the company a strong competitive advantage in export sales to the US. It is encouraging that the company has increased dividend payouts and share repurchases in 2020, demonstrating its confidence in the business.

Melco International, the Macau casino and resort holding company, was a contributor for the quarter. Its operating subsidiary Melco Resorts (MLCO) reported better than expected results in the first quarter, driven by a higher than normal hold rate and meaningful market share gains. As the new hotel Morpheus continues to ramp up, MLCO gained +5.1 points of gross gaming revenue (GGR) market share QoQ to 22.1%. This, combined with optimism around the potential easing of travel restrictions, led to a strong stock performance from last quarter's oversold levels.

Macau's operating environment remains challenging due to COVID-induced travel restrictions in the region. With the borders of China, Hong Kong, and Macau effectively closed, Q2 GGR was down over 95% YoY. Macau has been very effective in containing the spread of the virus with no new local cases and only one imported case in the last two months of the quarter. Yet, the casinos are largely empty and will remain so as long as there is a 14-day quarantine requirement by the neighboring Chinese province of Guangdong (which accounts for 46% of Chinese visitation to Macau). Hong Kong has seen a minor second wave of COVID and extended the border restrictions until August 7. There is increasing optimism (partly fueled by comments from Macau's Chief Executive Ho Iat Seng) that a travel bubble between Guangdong and Macau will be formed, which could jumpstart the recovery, but it would take many months to get back to normalized earnings power and would require lifting the ban on individual visit visas and group tours by Mainland authorities.

MLCO management is managing its balance sheet and cash flows well during these tough times. They have reduced daily cash costs by over 25%, liquidated their stake in Crown, reduced capital expenditure for the year by 35%, and canceled quarterly dividends. MLCO has $3.2 billion of available liquidity, which is equivalent to 20 months of fully loaded cash burn (including capex and interest expense) in a zero-revenue scenario. Additionally, Melco International has received a waiver on loan principal amortizations until the end of 2020 from its lenders.

We are encouraged to see our partner CEO Lawrence Ho investing over $50 million of personal capital in Melco International shares during the quarter in arguably his largest-ever open market purchase.

SoftBank Group, an internet and telecom investment holding company, was also a strong contributor for the quarter. We discussed SoftBank in detail in our last letter, and since then, SoftBank has made significant progress on its recently announced plans to sell 4.5 trillion yen (~$41 billion) in assets and use up to 2 trillion yen (~$18.5 billion) of the proceeds to buy back shares. SoftBank raised $3 billion by selling some SoftBank Corporation shares, another $11.5 billion by selling some Alibaba, and around $20 billion by selling the majority of its T-Mobile stake (another $10 billion by 2024).

SoftBank completed the 500 billion yen buyback that was announced in Q1, and is currently repurchasing shares under its May 2020 500 billion yen authorization. At its AGM on June 25, the company announced an additional 500 billion yen buyback authorization. In total, this 1.5 trillion yen buyback authorization (~$14 billion) to date is equal to about 18% of the free float. While the company's shares have appreciated almost 100% from its March lows, SoftBank still trades at a 50% discount to SoftBank's estimate of its NAV (https://group.softbank/en/ir/stock/sotp).

Prosus, a global consumer internet group, was a contributor in the quarter. Its 31% stake in Tencent, which represents the largest driver of value, demonstrated significant resilience during the pandemic. Both Tencent's key business segments – online advertising and gaming – grew revenues by 30% in the March quarter, as consumers spent more time on their mobile phones during the lockdown. Tencent has been a significant driver of Prosus's internet investment returns, helping to achieve a portfolio IRR of 37% since 2002. Even excluding the Tencent investment, the rest of the internet portfolio made an 18% IRR in the same period. Prosus is still operating at a loss, driven primarily by investment in areas such as food delivery, which grew food orders by 102% last year. Classifieds and Payments & Fintech segments have turned profitable at the core.

Prosus has both the discipline and financial strength to navigate the current uncertain environment. Over the past year, Prosus made only 54 investments after evaluating over 5,000 potential transactions. At a time when cash is king, Prosus has $4.5 billion of net cash and an undrawn $2.5 billion revolving credit facility. Furthermore, they have no debt maturing until 2025. Despite such a strong track record and fundamentals, Prosus continues to trade at a significant discount to its NAV. We are encouraged to see components linked to narrowing the holding company discount included in management's performance incentive program. Management is committed to reducing this discount and has clearly outlined the steps they have taken so far in their inaugural annual report:

"We are openly exploring and acting upon measures to reduce the holding company discount. Key value-creating actions over the past two years include unbundling the MultiChoice Group, which unlocked approximately US$4bn of value for our shareholders; selling our stake in Indian ecommerce company Flipkart; and creating Prosus to successfully list our international internet assets on Euronext Amsterdam. At the time of the listing the Prosus value unlock was ~US$10bn through the reduction of the discount to the combined net asset value of Prosus and Naspers. Management engages with shareholders and investors with greater frequency. Our reporting includes focused messaging on the path to profitability for our core segments and the future potential of food delivery. We provide biannual updates on our internal rate of return (IRR), for the total portfolio and for ecommerce."

Tongcheng-Elong (TCEL), one of the top three online travel agencies in China, was a contributor in the quarter. TCEL reported first-quarter results that were better than market expectations. Despite COVID causing severe disruptions to the entire travel industry and reducing the company's revenue by 44% YoY, TCEL remained profitable with an adjusted EBITDA margin of 16%, benefiting from its large portion of costs being variable and management's efficiency to keep costs under control. TCEL is well-positioned in the online travel agency (OTA) space, as more than 95% of its revenues come from the domestic market, which is recovering faster than international travel. Lower-tier cities are resuming travel more quickly than higher-tier cities, and TCEL has 86% of its registered users from non-first tier cities, giving the company another competitive advantage. Management still sees vast opportunities ahead as lower-tier cities' online penetration is well below that of higher-tier cities. With a net cash balance sheet and profitable underlying operations, TCEL should be able to sail through the pandemic headwinds and compound value per share over time.

BOTTOM PERFORMERS:

WH Group, the largest pork producer and marketer in the world, was a detractor for the quarter. With food being an essential item, the demand for its products remained strong, but supply in China was constrained temporarily due to logistical issues caused by lockdowns in Q1. As a result, the company's performance was quite resilient in the first quarter, with its China business's operating profit growth over 20% YoY and its US business's operating profit up 106%. However, in Q2, some of its US meat processing plants were closed down for a few weeks due to COVID cases among its workers. Around 30% of US packaged meat sales are to foodservice channels (restaurants) and given COVID lockdown measures, these sales have declined drastically (offset somewhat by an increase in sales at retail stores). Finally, US-China trade war tensions are resurfacing and could keep making headlines going into the US elections in November, which could add to the holding's volatility. WH Group, a dominant, branded consumer staples company with a strong balance sheet (net debt to EBITDA <1X), and is highly undervalued at current levels. Using its A-share listed Shuanghui stake at market value, Smithfield Foods (the US and Europe business) trades at a negative equity value for a business with an underlying EBITDA earnings power of over $1.2 billion.

CK Hutchison, a conglomerate of telecommunications, health & beauty, infrastructure, global ports, and energy, was a bottom performer in the quarter. Husky Energy is facing challenges in the current oil environment, but Husky is just a low single-digit percentage of CK Hutchison's overall appraisal. Health and beauty chain Watson's stores in China are back in business post lockdown, and the number of stores reopening in Europe increases daily. We expect sequential improvement in the second half of the year. While global port total volume will decline in 2020, given CK Hutchison's ports are in key hub ports locations in Europe and Asia, its ports should outperform the broader industry. The telecom division is the least impacted in the current environment; lockdowns and widespread remote work have improved business volume and asset utilization. The recent European Court ruling in favor of the 2016 merger between Three UK and O2 UK signals a more positive attitude towards mergers and acquisitions in the telecom industry. It is likely to stimulate greater consolidation and higher valuations in the European telecom industry, which would be positive for CK Hutchison. Also, CK Hutchison completed the legal separation of its tower assets in June, and we expect the business to start exploring ways to realize value by a potential monetization of their towers business.

Outlook

In closing, we would like to thank you for your continued trust and partnership during this highly volatile environment. We expect this volatility to continue and we remain at your disposal for a candid dialogue on our portfolio and outlook. Our Price-to-Value ratio remains attractive at 65%, the current cash level is at 9% (although some of that is already targeted to fill out new positions), and we are ready with a full on-deck list of investments should the market give us an opportunity.

See the following pages for important disclosures.

This document is for informational purposes only. Further information about Southeastern Asset Management can be found in our ADV Part 2, available at www.adviserinfo.sec.gov. Statements regarding securities are not recommendations to buy or sell the securities discussed. The statements and opinions expressed are those of the author and are as of the date of this report. Holdings identified do not represent all of the securities purchased, sold, or recommended for advisory clients. Current and future holdings are subject to risk and past performance does not guarantee future results. Portfolio information is based on a sample account at June 30, 2020. Portfolio makeup and performance will vary on many factors, including client guidelines and market conditions.

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 strategy 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.

"Margin of Safety" is a reference to the difference between a stock's market price and Southeastern's calculated appraisal value. It is not a guarantee of investment performance or returns.

Asia Pacific Equity Composite Annual Disclosure Presentation

Year End	Total Firm Assets (USD) (millions)	Composite Assets (USD) (millions)	Number of Accounts	% of Non-Fee Paying Accounts	MSCI AC Asia Pacific (with net dividends)	Annual Performance Results Composite		Composite Dispersion	Composite 3-Yr Annualized EX-Post Standard Deviation	Benchmark 3-Yr Annualized EX-Post Standard Deviation
						Gross	Net			
2019	12,481	603	<5	0%	19.4%	20.2%	19.3%	na1	17.1%	11.7%
2018	13,881	377	<5	0%	-13.5%	-21.0%	-21.7%	na1	16.9%	12.3%
2017	18,203	157	<5	0%	31.7%	41.4%	40.1%	na1	17.0%	12.7%
2016	19,302	111	<5	0%	4.9%	13.0%	12.0%	na1	na2	na2
2015	20,315	98	<5	0%	-2.0%	-2.0%	-2.8%	na1	na2	na2
2014*	30,542	19	<5	100%	-2.5%	-5.3%	-5.3%	na1	na2	na2

*Composite and benchmark performance are for the period 11/01/14 through 12/31/14
na1 - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.
na2 - Information is not statistically meaningful due to an insufficient period of time.

<u>Institutional Asia Pacific Equity Composite</u> - Portfolios included in this composite invest in securities in Asia Pacific markets. These markets include developed and emerging markets in Asia or the Pacific region, including Japan, Australia and New Zealand which the manager deems eligible. These portfolios normally contain 15-25 holdings. Country, industry weightings and market cap size are a by-product of bottom-up investment decisions. Cash is a by-product of a lack of investment opportunities that meet Southeastern's criteria. The benchmark used for comparison is the MSCI All-Country Asia Pacific Index with net dividends.
Southeastern Asset Management, Inc. ("Southeastern") claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in

compliance with the GIPS standards. Southeastern has been independently verified for the periods January 1, 2001 through December 31, 2019.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Institutional Asia Pacific Equity Composite has been examined for the periods November 1, 2014 through December 31, 2019. The verification and performance examination reports are available upon request.

Southeastern is an independent investment management firm that is not affiliated with any parent organization. Southeastern invests primarily in equities.

Results are based on fully discretionary portfolios under management that are managed without regard to tax considerations. Past performance is not indicative of future results.

A complete list of composite descriptions is available upon request.

The U.S. dollar is the currency used to express performance. Returns are presented gross and net of management and performance fees and include the reinvestment of income. Dividends are recorded either gross or net of foreign withholding taxes based on the treatment of these taxes by the accounts' custodian. Net of fee performance is calculated using actual management and performance fees. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the portfolios in the composite the entire year. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

The investment management fee schedule for accounts with a market value less than $100 million is 1.15% on the first $50 million and 1.00% on the next $50 million. The fee schedule for accounts with a market value exceeding $100 million is 0.90% on all assets. Actual investment advisory fees incurred by clients may vary. The Institutional Asia Pacific Equity Composite was created on November 1, 2014.