Investment Manager Report – December 2016

Dear Astoria Board,

It gives Anchor Capital (Mauritius) Ltd great pleasure in presenting Astoria with the investment management report for 2016. In this report we review the portfolio, performance, investment thesis and objectives, and reiterate the Anchor Capital (Mauritius) Ltd investment philosophy and strategy.

December 2016 saw Astoria complete its first full year as a listed entity (November 2015 listing).

The key objective of the business is to achieve a strong compound growth in US$ net asset value per share. This will be achieved through an investment mix comprising listed equities, niche funds and private equity opportunities. The strategic allocation for listed equities is 60%, niche funds 20% and the remaining 20% earmarked for private equity opportunities. The above-mentioned allocations should be seen as strategic allocations, at points in time it maybe prudent to employ tactical allocations which differ from the above.

The year saw the Resources sector return to favour and reward the contrarian investor, with commodity prices rebounding from multi-year lows and releaving pressure from stretched sector balance sheets. The US Federal Reserve began its interest-rate hiking cycle and at the same time the US dollar strengthened against major currencies. The pound sterling fell due to the Brexit vote and the unknown longer term economic implications that it heralds. As uncertainty reigned, gold rallied to highs not seen since early 2014, only to experience a sharp sell-off in the wake of Trump-induced euphoria around expectations of a more pro-growth fiscal stance in the USA. Late in the year, the Financials sector dominated returns given expectations of higher interest rates on the back of expectations of inflationary fiscal policies of the Trump administration.

NAV

Astoria ended the year on an NAV of $1.00 (NAV 2015 = $0.97), a return of 3.1% for the year.
The return was primarily driven by the direct equity allocation which accounted to 55.9% as at the end of 2016 and returned 4.9% for the year. Average allocation to direct equity was 47% for the year. It should be noted that Anchor Capital (Mauritius) and Astoria took a cautious approach to deploying its capital and as such has had cash drag on the underlying portfolio. Cash holdings still accounted for 26.0% of the asset allocation at year end and averaged 43% for the year. The holding in niche funds performed poorly and was a small detractor from returns, but this represented the first large drawdown in the Capricorn GEM Fund's strong 14-year history. The investments into Private Equity funds yielded a small return, however as these are new funds, meaningful revaluations of the underlying investments will take time to realise.

Asset Allocation

The investment holdings within Astoria are split into 3 main classifications, namely Direct Equity, Niche Funds and Private Equity. As at the end of December the asset allocation was 55.9% Direct Equity, 2.8% Niche Funds and 2.3% Private Equity. The cash holding was 26.0%. During the third quarter of 2016 Astoria took part in a private equity deal which saw it acquire a holding in Echo Polska Properties, a JSE and Luxembourg listed property company. The holding in Echo Polska Properties is classified as a strategic holding due to the weight in the total portfolio, 13.0%. The holding in Direct Equity together with the strategic holding total 68.9%.

Direct Equity

At the end of the year, direct equity portion of the Astoria holdings accounted for 55.9% of the total NAV, with investment holdings split between United States (78.7%), United Kingdom (10.7%) and Europe (10.6%). During 2016, the direct equity portfolio returned 4.9%. Although the mandate does not have a specific benchmark we can compare the returns to global developed markets, as measured by the MSCI World Total Return Index. The MSCI World Index posted a positive return of 8.2% for 2016. The difference in performance can be attributed to currency, depreciation of the GBP following Brexit and no allocation in the portfolio to typical “value” sectors such as Materials and Energy.

As the investment manager, we believe this to be a good result considering the cautious approach taken during the initial quarters and equity market volatility seen throughout the year. As mentioned, the average allocation to direct equity for the year was 47% with average cash accounting for 43%, representing a cash drag on the returns. With hindsight, we believe this was the correct strategy as it allowed Astoria to take advantage of opportunities as they arose during what was a volatile year.

The top 10 holdings at the end of the year were:

- The Blackstone Group
- Home Depot
- Amazon
- Facebook
- Starbucks
- Apple
- JP Morgan
- FedEx
- Philip Morris
- Johnson and Johnson

Top 10 holdings accounted for 51% of the direct equity holdings and 28.5% of the total NAV.

High Conviction Stock Overviews

Blackstone Group

Following difficult market conditions the world’s largest alternative asset manager, Blackstone has seen the performance-fee component of its earnings reduce and, at 0.6% of AuM, this performance-fee yield is now the lowest since the crisis. However, investors still receive an attractive 6.5% distribution yield on a very low earnings base. It also continues to attract flows (gross inflows of c. $79bn in the past year). Blackstone’s businesses are diversified across a wide spectrum of regions, industries and asset classes, providing the expertise, access to resources and critical mass to take advantage of investment opportunities on a global scale.

Home Depot

Home Depot has large-scale advantage, lending it sourcing power. It has sustained same-store sales growth (c. 5% p.a.) that is the envy of North American retail. Returns on capital employed are excellent and should improve as its growth for the next few years comes with incremental less capital intensity due to management’s expectation of a US housing market upcycle. In line with guidance, we expect rising margins, a quicker share-buyback pace and possibly a more generous dividend pay-out in coming years. Its product mix also makes it less vulnerable to market-share loss from third-party online retailers.

Facebook

As the world's largest social media network, Facebook has a powerful business model which is expected to continue gaining scale. We expect strong growth in its advertising revenues as the global advertising industry increasingly shifts to online and social media advertising gains market share. As its business model does not rely on expensive third-party content, margins and return on capital employed (already very high) are likely to rise further as it builds greater advertising scale. Facebook also has substantial optionality in exploring new business models which can leverage off its large core user base.

Strategic Direct Equity

Astoria continues to hold a material interest in Echo Polska Properties Ltd (EPP). Due to the size of this holding, it is classified as a strategic holding and review it separately from other listed shares. Although EPP has declined since listing, Astoria is still firmly in-the-money given the pre-IPO investment. EPP has delivered a return from investment date to the end of December 2016 of 26.9% when measured in USD.

Niche Funds

The Capricorn GEM Fund continues to be the only holding within the Niche Funds allocation, with a current weighting of 2.8% of total NAV.

Private Equity

As at the end of the year, Astoria had committed and invested into 5 private equity opportunities. These included the Apollo Natural Resources II, CS Capital Partners V, Star Strategic Assets III, DSG Partners II and V'Ocean Capital Partners. Total committed capital equates to circa 12.5% of the total NAV for Astoria. At the end of the year the drawn down commitment was 2.7%. The portfolio hasseen some revaluations, with the highest return coming from Apollo. A number of the other funds have delivered negative returns due to initial costs and no revaluation on the underlying assets.

	Currency	Commited Amount ('000)	Valuation ('000)	Undrawn Commitment ('000)
Apollo Natural Resources Partners II, L.P.	USD	5,000	1,564	3,690
CS Capital Partners V, L.P.	GBP	3,500	346	3,154
Star Strategic Assets III	EUR	4,500	414	4,086
DSG Consumer Partners II	USD	750	360	375

V'Ocean Capital Partners (Just Buy Ltd)	USD	750	720	0

Anchor Capital Investment Philosophy and Approach

Our core investment beliefs and what we look for in companies

- Quality first – while we are valuation-centric, we are happy to pay premium ratings for premium businesses where growth outlook, return metrics and cash flows warrant this
- To our minds, value is a function of growth and these concepts cannot be separated
- Liquidity (or lack thereof) deserves a big premium (discount)
- We place a premium on good management – entrepreneurial teams are serial value creators, and this often cannot be captured easily in a spreadsheet
- Simple, easy to understand business models.
- Businesses that possess optionality and the opportunity to scale their business models.
- Businesses with the clear opportunity to deploy the incremental capital they are generating.
- Where the above is not possible, a clear intention to return excess capital to shareholders via buy-backs or more aggressive dividend policy.
- Capital-light business models. We love businesses that generate earnings without having to deploy their own capital. Growing franchise businesses especially fit this mould.
- Market consolidators where the business has the opportunity to grow accretively via acquisitions and organically. High margin businesses are preferable, but return on equity is more important. We don't mind investing in structurally low margin companies as long as the balance sheet structure allows for superior returns on capital.

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Bryan Rudd
Chief Investment Officer
Anchor Capital (Mauritius) Limited