ASIA PACIFIC PERFORMANCE SICAV

QUARTERLY REPORTING December 2011

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- European crisis is not resolved yet and it will take time to come back to a brighter picture.
- As risk aversion rose significantly, investors withdrew 41bn USD from the emerging region in 2011.
- Asian markets rebounded slightly in Q4 (+3.3% in USD) but still underperformed developed markets (+7.6%).
- Currency depreciation in emerging markets was high in 2011, Chinese Renminbi excepted.
- Chinese growth is still on track and no hard landing can be expected. 2012 is a year of political transition.
- As a result, the RBI cannot opt for monetary easing now. Other countries in the Asian region have more room in this field.

- Asian markets strongly rebounded in October (+12.0%) but gains were partly erased the following month. Investors' risk aversion is still high in the current economic context
- Currencies were globally less volatile than in Q3, Indian Rupee excepted (depreciation of 8.4% vs USD)
- South East Asia was the best performing region both in Q4 and in 2011 as it is less dependent on exports to Europe. India was the worst performer, combining price and currency depreciation
- Larger cap stocks significantly outperformed mid and small caps in Q4
- Asia Pacific Performance performed 0.9% in Q4, This is 2.2% below the benchmark. Performance was in line with the benchmark when markets rose in October but lost more ground on the downside.
- Atlantis and JO Hambro outperformed the benchmark. ARN was almost in line but Hamon and Sloane detracted from performance due to their exposure on India.
- Managers find a lot of companies with limited debt, strong cash flows, strong business and attractive valuations. Once global risk aversion decreases, strong returns may be expected.

Introduction

After experiencing a very poor performance in Q3 (-20.9%), the MSCI AC Asia ex-Japan (the benchmark) rose a modest 3.3% in Q4. The MSCI World index was up even more at 7.6% (all performance figures are expressed in USD).

Europe remains a major concern as the lack of effective measures to limit public deficits and global debt has made investors nervous. But the flow of bad news seems to decrease. The crisis is still far from being resolved but European governments have recently been able to refinance themselves at fair prices on the bond market which can be considered as positive.

This situation remains confusing for stock markets as investors around the globe have reduced their exposure towards emerging markets in 2011. Outflows from emerging market funds amounted to 41 bn USD in 2011. Bigger cap stocks have resisted quite well but small caps were badly hit and now trade at discounted valuations. One can also notice significant differences between the performance of markets who banned short selling (e.g. South Korea) and liquid markets which did not ban it (e.g. Hong Kong).

Asia Pacific Performance (APP) was up 0.9% in Q4. The performance for the whole year stands at -26.4% which is the second worst performance in 10 years (APP was down 49.3% in 2008). Active management had very hard times in 2011.

Assets under management stand at 253 mn USD as at 30 December 2011.

Asian Economies

Macro review

Diverging growth rates among major economies are more and more visible. The US economy is clearly decoupling from Europe and is expected to grow at a moderate but positive pace in 2012. US Lading indicators remained relatively resilient and pointed to a 1.5% growth on a quarterly annualized basis. Furthermore, improving consumer confidence and better employment figures led to resilient consumption figures. In addition, it is likely that the recent agreement between the White House and Congressional Republicans over the expiring payroll tax cut and extended unemployment insurance reduces downside risk to consumption growth rate in 2012. The residential housing activity also picked up and should partly offset the expected decline in business investment.

The situation is quite different in the euro area. Leading indicators point to a small contraction of the activity in the fourth quarter. The lower the growth, the more painful the adjustment will be. On top of that, the lack of confidence in the banking sector pushed the European central bank (ECB) to conduct a three year refinancing operations recently. The ECB allocated €489 billion to more than 500 banks, which are expected to lend this amount to households and companies to stimulate growth. However, many banks are likely to use this amount of money to pay back their maturing debt (more than €600 billion mature in 2012). Some should also buy sovereign debt to benefit from the carry between the sovereign yield and the rate paid to the ECB for the money borrowed. The central bank also reduced the reserve ratio from 2% to 1% and increased the range of assets it accepts as collateral.

Emerging economies are not totally immune to the decelerating worldwide growth but are expected to grow at a higher rate than developed economies, especially in Asia. Asian biggest economies are indeed expected to post decent growth figures in 2012 while small opened economies, much more exposed to the external sector, should be more impacted by the international trade deceleration. Asian economies also benefit from sound fiscal balance and limited indebtedness, which will allow them to support their economies if the situation worsens further.

Countries and stock market performances

Asian economies will not be totally immune to the decelerating worldwide growth but are expected to remain relatively resilient. The biggest economies are much less exposed to their external sector than small opened economies. International trade is expected to slow down but a sharp collapse similar to 2009 is unlikely. Furthermore, most of these countries have more fiscal flexibility than their American and European counterparts and can also use the monetary tool.

China and Hong Kong (36.0% of MSCI AC Asia ex-Japan) : Chinese economy grew at 2.3% in the third quarter leaving the year-on-year increase at 9.1% slightly lower than the figures published in the second (9.5%) and first quarters (9.7%). Recent figures were still in line with a soft and not a hard landing. The NBS PMI has just came back above the 50 threshold while the HSBC PMI, which is more focused on small enterprises, is still in contraction mode. NBS and HSBC PMI services evolved at higher levels. Industrial production is also decelerating but still grew at a double digit level as well as retail sales, which remained relatively resilient. Still on the positive side, inflation has already declined more than 2% since its July’s peak mainly due to lower food prices. The decline in non food and services inflation is less impressive as both indices had increased at a slower rate. On the monetary front, the People’s Bank of China decided to cut the reserve ratio by 50 bps to 21% for the first time since November 2008.

Hong Kong : the economy avoided a technical recession in the third quarter as the GDP rose 0.1% leaving the year-on-year increase at 4.3% (down from 5.3% in the second quarter). Domestic demand remained relatively resilient with strong private consumption (up 8.8% yoy) and gross fixed capital formation (up 10.2% yoy), which offset the negative contribution of external demand (down 4% yoy). External trade is expected to be a drag for the economy in the coming quarters given its high degree of openness. Domestic demand will further be stimulated by eager-to-consume mainland Chinese.

South Korea (20.7%) : The economy grew at 3.5% yoy in the third quarter. Domestic demand slowed on a year-on-year basis while net exports improved. Bank of Korea made its last hike in June and has tightened its monetary policy by 125 bps to 3.25% since June 2010. An inflexion point in the inflation rate is expected before the Central Bank can start easing its monetary policy.

Taiwan (15.2%) : Real GDP slowed to 3.4% on a year-on-year basis in the third quarter on lower domestic demand. The government decided to put forward several strategies (promoting investment, increasing employment, encouraging consumption, …) to achieve a 4% GDP growth in 2012. The central bank is on hold since June 2011 and hiked its benchmark rate by 62.5 basis points to 1.875% during the tightening cycle. Despite very low inflation, real rates evolved in negative territory.

India (8.6%): The economy grew at 6.9% yoy in the third quarter, the lowest growth rate since June 2009. Industrial, agricultural and services sectors softened on a year-on-year basis. The Reserve Bank of India further hiked its monetary policy to bring its repo rate at 8.5% (the highest benchmark rate within the Asian economy) in order to reduce inflation pressure.

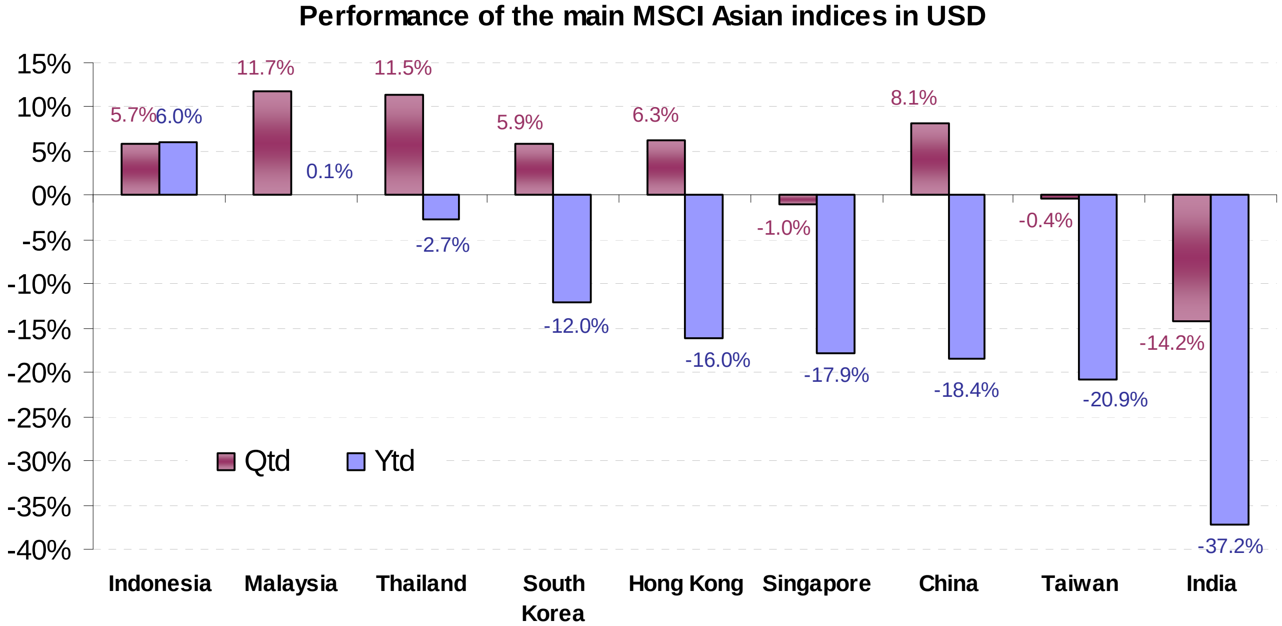
Inflation has probably peaked in September but was still the highest within the Asian economies. The current INR weakness (INR depreciated by 8.4% in Q4 against USD after a depreciation of 9.6% in Q3) should not help. Without a clear drop of wholesale prices, the central bank will be reluctant to ease its monetary policy. The first cut is expected in the second quarter. India is the only Asian country to have a twin deficit giving less room to use the fiscal policy if needed.

Singapore (6.8%): The advanced real GDP estimate for the fourth quarter suggested the economy contracted 4.9% on a quarterly annualized basis leaving the year-on-year increase at 3.6% down from 5.9% in the third quarter. The decline in the manufacturing sector explains most of the contraction. Singapore still benefits from one of the lowest unemployment rate within the Asian countries (with Thailand). This tight labour market is however a bad news for inflation as wages pressure is on the upside. Singapore has the second Asian highest CPI of the area after India.

Indonesia (4.1%): Real GDP grew at 6.5% for the third consecutive quarter on a year-on-year basis thanks to a positive contribution of net exports to other Asian countries and a small pick up in consumption. Investment growth decelerated to its lowest level since the last quarter of 2009. Indonesian central bank has been the first Asian central bank to ease its monetary policy in the fourth quarter and cut its benchmark rate by 75 bps to 6% on declining inflation. Further rate cuts cannot be ruled out. Fitch decided to upgrade the country to investment grade status (BBB-).

Malaysia (4.9%) : Malaysian economy surprised positively in the third quarter and expanded 5.8% yoy on increasing private consumption and investment and surging government expenditure, outperforming small opened economies. The central bank is on hold since May 2011 when it made its last hike (up 25 bps to 3%). Inflation remained relatively flat slightly above 3%.

The stock markets



Based on MSCI Net Dividend Reinvested

Asset Managers of Asia Pacific Performance

Fund Activity

Asia Pacific Performance sticks to its goal of achieving diversification through the use of different and complementary investment strategies.

Here is the current breakdown of the portfolio between the different managers.

	Weight as at 31/12/10	Weight as at 30/09/11	Weight as at 31/12/11
Sloane Robinson	*32.3%*	*27.4%*	*23.4%*
ARN	*10.6%*	*20.1%*	*20.3%*
Hamon	*22.7%*	*19.6%*	*18.5%*
Atlantis	*13.4%*	*17.6%*	*18.8%*
JO Hambro (Silver Metis)	*1.9%*	*15.9%*	*18.7%*
Comgest	*17.8%*	*0.0%*	*0.0%*

Comgest's mandate ended in Q3. Assets were taken over by JO Hambro which performed in line with the benchmark. The weight of Sloane has been further reduced while Hamon, Atlantis and JO Hambro gradually got the same weighting in the fund.

Here are the performances of the different managers as at December 30st, 2011

Performance in USD	Q4 2011	Ytd
Silver Metis / JO Hambro	*4.3%*	-14.6%
ARN	*2.9%*	*-20.2%*
Sloane Robinson	*-1.7%*	*-26.3%*
Hamon	*-2.5%*	*-31.6%*
Atlantis	*4.3%*	*-34.6%*
ASIA Pacific Performance	**0.9%**	**-26.4%**
MSCI AC Asia ex-Japan	3.3%	-17.3%

JO Hambro and Atlantis were able to outperform the benchmark in Q4. The overweight exposure on India of Sloane Robinson (5.0% OW) and Hamon (4.7% OW) explains most of the underperformance. As detailed in the Annex, ARN and JO Hambro were completely out of India.

Smaller and Mid cap stocks both underperformed APP's benchmark during the quarter with respective performances of -0.7% and +0.9%. Atlantis performed quite well in Q4 despite its exposure to mid and small caps (63.4% vs 13.3% in the benchmark). Thanks to its stock selection, the manager was able to outperform the benchmark by 1.0%.

Managers

Sloane Robinson: The manager had a too optimistic view a the beginning of the year, underestimating the impact of the Japanese earthquake and making the assumption that Europe would avoid falling into the abyss. Inflationary pressures also remained too high in India.

The de-rating in China appears to have reached something of an extreme. With inflation falling towards the target level of 4%, monetary policy will be eased and a swift rebound can be expected once more normal conditions return. China will not experience a hard landing which should give comfort to equity investors and also lead to renewed strength in commodities and emerging market currencies. In this environment, successful investments will only come from companies that are able to grow their top line whilst maintaining pricing discipline and margins.

ARN Investment Partners: 2012 is a year of political transition in Beijing when almost all top echelon leaders will be replaced. It is inconceivable how outgoing leaders would engineer a hard landing to welcome a new political regime. That is certainly not part of the Chinese political etiquette. Macro Hedge Funds shorting Chinese banks must understand China has the benefit of being a closed market where foreigners have only limited access to its equities, foreign exchange and fixed income. It is also a country with the deepest pocket and a grossly undervalued currency. Consumption growth remains particularly dynamic in Asia which is good for many European products, mostly the luxury ones.

ARN holds mainly large cap stocks in China trading at significant discount. Some of those stocks are often monopolistic businesses with cash flows in Renminbi and with limited level of debt on the balance sheet. Once investors become more optimists again, the stock price of those companies should be the first to benefit from a come back of investment flows in the region.

Hamon : Leaders of China's ruling party announced at the close of this year's Central Economic Work Conference that they would continue to maintain the current "proactive fiscal policy and prudent monetary policy" into next year. With the main theme to ensure stability, investments will focus on construction projects, irrigation, rail, equipment, and strategic industries. Policy makers want to balance the Yuan’s value with reforms aimed at liberalizing interest rates.

During the quarter, the portfolio benefited from its exposure on ASEAN countries. The land bill reform in Indonesia was passed by the Senate which boosted property developers and cement producers. Main performance detractor was the exposure towards interest rate sensitive stocks in India. The Reserve Bank of India disappointed the markets by leaving interest rates unchanged. Inflation should peak soon in 2012 and give more room for a significant easing of the monetary policy.

The portfolio is positioned to benefit from a lower risk aversion on the markets. Inflation remains globally tilted to the downside in the region, giving Central Banks room to ease monetary policies and support growth.

Atlantis : For the first time in three years, China experienced the first cut of the reserve requirement ratio. This might represent the start of a gradual relaxation of credit. Thailand and Indonesia also responded to the economic slowdown with rate cuts. The Reserve Bank of India loosened rules for companies to borrow abroad in an effort to stop the decline of the Rupee.

The consumer discretionary sector is the sector with the highest valuations. After the huge sell-off in Q3, it was again possible to find stocks trading at attractive valuations in this sector.

Short term volatility in the markets is expected to continue until the sovereign debt crisis is resolved. Market volatility will be used to accumulate attractive stocks as Atlantis remains bullish on equities over the medium and long term.

JO Hambro: Asia faces a cyclical slowdown. Year 2012 should be a benign one for inflation as base effects, lower food and commodity prices and lower credit growth are all good portents. Market is fearing the worst as macro risks remain and oil prices may become a hurdle. In this context the portfolio is dominated by high quality, free cash generating companies that are not reliant on credit growth for higher sales. South Korea is the preferred cyclical exposure.

Chinese weight has been gradually increased in the portfolio and is now the main overweight versus benchmark. Not holding stocks in India is the main driver explaining the excess performance of JO Hambro in Q4 as the performance of MSCI India was down 14.3%.

Market perspective

Emerging markets have suffered from substantial outflows last year as risk aversion has risen significantly. South East Asia and some large cap stocks have resisted quite well during this sell-off. Some managers find opportunities in the markets which are as attractive as in 2008. This is a good news for opportunistic asset managers.

Inflation has peaked in most Asian markets or should do so within the quarter in India. Central Banks have room for monetary policy easing and China should also avoid a hard landing in this transition year.

Asia Pacific Performance is a diversified approach towards the region. Once the “risk-on” mode is back, Asian markets should recover and fundamental investors can expect double digit returns again.

Frederic Adam   Jean-François Gillardin

ANNEX

Geographical breakdown as at 30 December 2011

	Sloane	ARN	Hamon	JO Hambro	Atlantis	APP	Bench
HK / China	29.6%	67.6%	39.5%	52.1%	38.5%	44.8%	36.0%
India	13.6%	0.0%	13.3%	0.0%	2.4%	6.0%	8.6%
Indonesia	11.1%	0.0%	9.7%	5.5%	8.8%	7.1%	4.1%
Korea	20.1%	14.8%	14.0%	12.2%	21.2%	16.6%	20.7%
Malaysia	0.6%	0.0%	1.7%	5.5%	0.9%	1.7%	4.9%
Philippines	0.0%	0.0%	4.0%	0.0%	0.0%	0.7%	1.0%
Singapore	8.2%	13.4%	1.1%	7.2%	11.1%	8.3%	6.8%
Taiwan	0.0%	0.0%	11.6%	5.6%	13.2%	5.6%	15.2%
Thailand	8.7%	0.0%	3.8%	11.5%	3.8%	5.7%	2.7%
Others	2.2%	0.0%	0.0%	0.0%	0.0%	0.5%	0.0%
Cash	5.8%	4.2%	1.6%	0.5%	0.3%	3.0%	0.0%

Internal data as at 31/12/11

Monthly Value at Risk	APP	MSCI Asia ex-Jpn
At 95%	13.0%	14.1%
At 99%	17.1%	18.5%

Tracking Measures	
Beta	0.86
Alpha	0.29%
Tracking Error	9.05%
Bull Beta	0.85
Bear Beta	0.87