

ASIA PACIFIC PERFORMANCE SICAV

QUARTERLY REPORTING

June 2011

Introduction

In a context of uncertainties, the MSCI AC Asia ex-Japan posted a flat performance at +0.01%. Asia performed better than other emerging regions like Latin America but lagged behind the MSCI World by 0.46%.

The European debt concerns are still heavily weighing on investor confidence. The Greek debt problem is far from being resolved and risk of contagion to other countries cannot be ruled out. This is not a positive background for risk averse investors. The end of QE2 in the US reinforces those fears but it seems that the Federal Reserve will not stop providing liquidities to the market

China was under the spotlight as CPI figures are rising which requires more monetary tightening. The real estate market is also at risk but the bubble is mostly concentrated on the “high-end” of the market.

Active management has been hit badly in the whole industry. Asia Pacific Performance (APP) was down 1.7% during the quarter. The total assets under management are now standing at 479.3 mn USD.

All performances in this report are reported in USD.

Asian Economies

Macro review

In the first quarter, the Japanese earthquake and tensions in Africa and the Middle East were the key stock markets drivers while the European sovereign crisis dominated the debate in the second quarter. Rating agencies continued to downgrade the weakest countries, pushing their yields at or close to record levels. After Greece and Ireland, Portugal has been the third country to ask for assistance as it was impossible for the country to issue new debt at the current level of yields.

All over the world, leading indicators are clearly showing signs of deceleration. Asian economies did not escape this trend and released lower growth figures (on a year-on-year basis) in the first quarter compared to the last quarter 2010. This gradual deceleration was largely expected and could be explained by two factors: lower base effects and the first negative signs of the on-going monetary policy normalization. This will not prevent Asian economies from growing at a faster pace than developed economies and the other emerging areas in the quarters to come.

The Euro zone is still impacted by the sovereign crisis despite an impressive growth rate in Germany. Huge disparities between core and peripheral countries are still visible. In the US, the growth momentum is also fading. The growth rate decelerated for consumption and investment while state and local governments massively reduced their expenses. Growth should however pick up in the second part of the year once the negative effects of the Japanese disaster (especially in the auto industry) will be dissipated. A moderation in energy prices could also be positive and increase consumer purchasing power in the second half of the year

Most of the rate-hike cycle appears to be behind us even though Asian central banks will continue to tighten their monetary policy to avoid overheating and curb inflation pressure. The combination of lower inflation and higher benchmark rates will gradually push real rates in positive territory and should allow Asian central banks to hike less aggressively than initially expected.

Countries and stock market performances

China : Chinese economy grew at 2.1% in the first quarter leaving the year-on-year increase to 9.7%. Leading indicators (deceleration in PMI) are however pointing to a slower growth for the coming months. Industrial production, retail sales and monetary growth are also showing signs of deceleration even though the figures remained in line with a soft and not a hard landing. CPI (5.5% yoy) continued to evolve above the central bank comfort level (4%). Food prices were still the main culprit but are expected to decelerate in the second part of the year as well as headline inflation. More worrying, the service inflation, which is much more structural than food inflation, is also on an increasing trend.

On the monetary front, the People's Bank of China (PBOC) pursued its tightening cycle. It has hiked its reserve requirement ratio by 50 bps to 21.5% for large institutions and to 19.5% for small and medium size financial institutions. This was the sixth hike since the beginning of the year and the twelfth since the beginning of the rate hikes cycle. This tool has the advantage to withdraw liquidity from the financial system without attracting speculative inflows. On the other hand, banks became more and more restrictive and prefer to lend to their best customers (large enterprises) reducing the amount they lend to smaller companies. The PBOC has also raised recently both its deposit and lending rate by 25 bps to respectively 3.50% and 6.56%. This was the third rate hike this year and the fifth since the beginning of the tightening cycle in October 2010. Real interest rate still evolved in negative territory, which should allow the PBOC to pursue its monetary policy normalization in the months to come. MSCI China declined 1.9% in the second quarter leaving the year-to-date in positive territory at 0.9%.

Hong Kong : The economy grew at 7.2% yoy in Q1 2011 versus 6.2% yoy in the last quarter 2010 thanks to a strong contribution of net trade. Strong consumption figures were almost offset by a reduction in inventory leading to a small contribution of domestic demand. The continuing improvement in the unemployment rate should further support consumption in the coming quarters even though inflation remains a source of concern. In June, the Hong Kong Monetary Authority (HKMA) decided to further lower the loan-to-value ratio of mortgage lending in an attempt to limit its banking system exposure to a potential sharp correction in home prices. The HKMA even made a distinction between residents and non residents. Indeed for the latter, the loan-to-value ratio will be further lowered by at least 10%. MSCI Hong Kong fell 1.0% in the second quarter leaving the year-to-date decline at 1.4%.

India : The economy slowed down to 7.8% yoy in the first quarter, its lowest level since Q3 2009. Two factors can explain this deceleration: a weakness in the service sector and a strong decline in investment. Leading indicators (especially PMI service) are also showing signs of weakness but remained at high levels. Indian inflation evolved above 9% yoy. In 2010, food inflation was the major culprit. Today, the increase in inflation is more-broad based. To limit this inflationary pressure, the Reserve Bank of India (RBI) has already hiked its benchmark rate by 2.75% to 7.5% since the beginning of its tightening cycle in March 2010. Real rates still evolved in negative territory, which should allow the RBI to further hike in the months to come. In an attempt to cut the government's oil subsidy bill and to limit the budget deficit, the Indian government has decided to hike some regulated fuel prices. According to MSCI, Indian stock market recorded the worst Asian performance for the second quarter (-3.6%) and since the beginning of the year (-8.5%).

Indonesia : Real GDP slowed to 6.5% yoy due to smaller contribution of net exports and investment. On the other hand, consumption remained well oriented. The central bank has until now only hiked one time in 2010 and is not in a hurry to further tighten its monetary policy given its positive real rates and declining inflation rate. S&P upgraded Indonesia's rating to BB+ from BB, one notch below the investment grade. The rating has a positive outlook meaning Indonesia could have another upgrade in the future. S&P took this decision due to the continuing improvements in the government's balance sheet and external liquidity, the resilient economic performance, the cautious fiscal management and the increasing foreign reserves. Indonesian stock market recorded the best Asian quarterly performance (+7.7%) as well as the best year-to-date performance (+12.7%).

Malaysia : The economy grew at 4.6% yoy in Q1 thanks to strong domestic demand. Consumption continued to hold well supported by a strong labour market (Malaysia has one of the lowest unemployment rate within the Asian countries). On the other hand, net exports figures disappointed as export growth was lower than import growth. The central bank has already tightened fourth times its monetary policy to bring its benchmark rate from 2% up to 3%. Real rates are almost flat at the time being but are expected to further decline in the months to come on rising inflation. This should allow the central bank to pursue its tightening cycle. Malaysia stock market recorded the second best Asian performance in the second quarter (+3.5%) and since the beginning of the year (+8.0%).

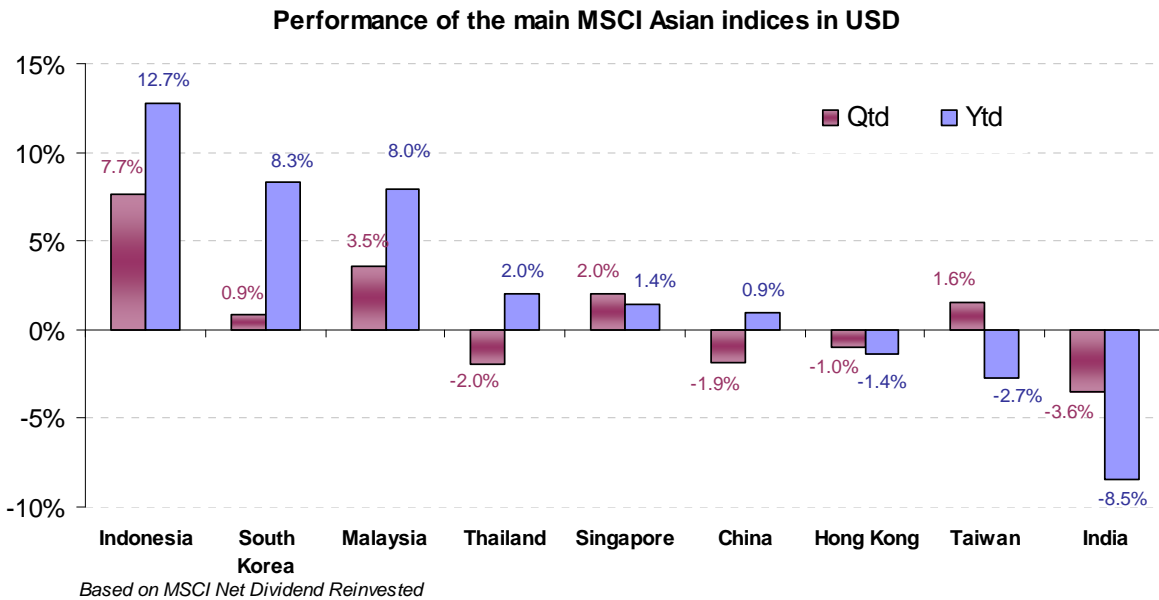
Singapore : After having released impressive growth figures throughout 2010, the economy is slowing down even though growth figures remain strong (+8.3% yoy in Q1). The country has one of the lowest unemployment rate (1.9%) within the Asian economy with Thailand and Malaysia. This tight labour market is however a bad news for inflation as it pushes wages on the upside. Singapore does not have a benchmark rate to manage its monetary policy but uses its exchange rate as its main monetary tool. MSCI Singapore was up 2.0% in the second quarter and up 1.4% since the beginning of the year.

South Korea : The economy grew at 4.2% yoy in Q1 slightly below the level reached in Q4 2010 (4.7%). Growth came from a gain in net trade while domestic demand remained almost flat. Indeed, private and government consumption increased while gross fixed capital formation surprised on the weak side. The Bank of Korea hiked its benchmark rate for the fifth times during the first quarter to counter inflationary pressure. The benchmark rate now evolves at 3.25%, 125 bps higher than its lowest level. Further rate hikes should follow as tight labour market should continue to put inflation under pressure through higher wages. Furthermore, real rates are still in negative territory. After the terrific earthquake in Japan, some reallocations have been done to the competing market of South Korea in March and April (ie Korean car companies rose dramatically as market anticipated Japanese car makers would lose their market share). MSCI South Korea rose a modest 0.9% in the second quarter but still sharply up since the beginning of the year at +8.3%.

Taiwan : Taiwan released a 6.6% growth yoy in Q1 thanks to a strong contribution of net trade and investment. The central bank has already hiked five times its benchmark rate (each time by 12.5 bps) to 1.875% since the beginning of the tightening cycle. The country benefits from the lowest inflation rate within the Asian economies, which leaves the real rates in slightly positive territory. MSCI Taiwan was up 1.6% this quarter but is still down 2.7% ytd.

Thailand : In the first quarter, the economy grew at 3% yoy thanks to both the external sector and the domestic demand. The central bank has already hiked seven times its benchmark rate during this tightening cycle. However the current benchmark rate (3.25%) is still lower than the inflation rate, which should allow the central bank to further tighten its monetary policy. MSCI Thailand fell 2.0% in the second quarter but still released positive performance on a year-to-date basis (+2.0%).

The stock markets



There were strong divergences between the performance of the best and worst markets since the beginning of the year. India posted another quarterly loss, leading to a ytd loss of -8.5% with the Indian Rupee almost stable. The Indonesian market on the other side rose by 7.7% in Q2 and 12.7% ytd. The Rupiah appreciated 4.6% vs the USD since December 2010.

Asset Managers of Asia Pacific Performance

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 31/03/11	Weight as at 30/06/11
<i>Sloane Robinson</i>	32.3%	28.5%	29.2%
<i>Hamon</i>	22.7%	20.9%	18.9%
<i>Comgest</i>	17.8%	17.0%	17.3%
<i>Atlantis</i>	13.4%	15.5%	14.9%
<i>ARN</i>	10.6%	14.1%	15.4%
<i>Farm Team</i>	2.4%	3.3%	3.4%

The weighting breakdown of the different managers was quite stable during Q2. Some reallocations based on flows into APP have been done to ARN.

Asia Pacific Performance ended the quarter with a negative performance at -1.70% which is 1.71% below the benchmark. The overweight on Thailand, China and India detracted performance on the whole portfolio.

Hyundai Motor and Hyundai Mobis (from South Korea) soared as the market anticipated that they would benefit from new market shares after disruptions in the auto sector in Japan following the earthquake. That move had already started in March and went further despite those stocks becoming more and more expensive compared to a one time event that should not have long term impacts. Not holding those two stocks simply meant underperforming by 39 bps vs the index. This is just an example to illustrate the difficulties that face active asset managers since a long period. Not holding two stocks which you find unattractive because of high valuation or poor perspectives can quickly create an underperformance.

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

Performance	Q2 2011	Ytd
<i>Sloane Robinson</i>	-0.3%	-4.8%
<i>Atlantis</i>	-7.4%	-11.4%
<i>Comgest</i>	1.3%	-2.8%
<i>Hamon</i>	-3.3%	-8.1%
<i>ARN</i>	-1.8%	-2.4%
<i>Silver Metis (Farm Team)</i>	1.0%	-0.7%
ASIA Pacific Performance	-1.7%	-5.1%
MSCI AC Asia ex-Japan	0.0%	1.2%

Sloane Robinson : Sloane's stock selection on Taiwan detracted from performance during the month with HTC posting a loss of 14.4%. HTC develops and manufactures smartphones and has a weight of 1.0% in the benchmark. The stock was 2.1% overweighted. Two companies underperformed significantly for the second quarter in a row. These were Airmidia Group which does advertising in Chinese airports and Thai Airways which lost margins on Japanese routes from Bangkok and suffered from higher oil prices.

Sloane expects a possible rally once PBOC will have increased its rate for a last time, as inflation will benefit from base effects and will not be a concern anymore. India could also rebound quicker than expected as Reserve Bank of India has already done a significant job to contain inflation. South Korea financials are also heavily underweighted as the manager does not find them attractive in a context of high credit/GDP ratio compared to other Asian countries.

In the IT sector, he favours software companies (games, internet) instead of hardware companies. Some advertisers should start recovering quickly once new auto models will be launched which should stimulate advertising companies and those who are developing new business models. Some dominant players on the market are in the portfolio. They have also significant upside potential and are trading at cheap valuation

Hamon : The portfolio of Hamon was positioned towards a rebound of the market, mainly coming from China and India. This positioning produced mixed results during the quarter. But some external factors may explain the underperformance like the heavy short selling of some Chinese stocks listed on the Nasdaq (some investment banks may have structured a basket of Chinese US listed stocks to allow hedge funds to easily short them on the market). This kind of event is not related to the business of the companies which remains healthy. At those levels, the manager will keep such stocks in the portfolio.

Hamon also thinks the Chinese markets may recover as the CPI in China should peak in July and then give room for the central bank to put an end on tightening. Asean has been flooded by liquidities but the wind could change and both China and India could quickly recover and benefit from new flows. Valuations are particularly attractive and many stocks are trading at bargain prices.

Ahead of presidential elections in Taiwan, Hamon has reinforced his position in the country. Taiwan will benefit both from lower inflation figures but also from tighter links with China. The main themes represented in the portfolio are still consumer demand and better living standards. Both themes will be key beneficiaries within the next five years.

ARN Investment Partners: ARN is still largely oriented towards the Chinese markets but has only a limited allocation to India. The Indian underweight was a positive contributor to performance while stock selection detracted some.

ARN is focusing partly on Chinese stocks listed in Hong Kong with earnings in Renminbi and which are valued in HKD (linked to the USD). Companies with strong cash flows in Renminbi (like China Mobile) or airlines companies which have local currency earnings and costs in USD, will benefit from the inevitable appreciation of the Renminbi. The pace of appreciation is not known but the trend is there.

Luxury assets and durable good will benefit the most from rising wealth in China. Some companies have suffered a lot for almost no reason and may trade at significant discount. Nine Dragons Paper Holdings for example was almost trading at “default levels” while the company is well managed, has cash on the balance sheet and has recently opened the most productive containerboard factory in the world.

Comgest : The performance of Comgest benefited from the strong overweight on Malaysia, good stock selection in China, India and South Korea. The good performance of some large cap stocks like Taiwan Semiconductor or Tencent also drove the return up. Overweights on Esprit Holding and Acer detracted more than 1% of performance.

Comgest remains very cautious on the markets, focusing on some big players who can benefit from stable cash flows, even during uncertain market conditions. Some Korean stocks still benefited from the consequences of the Japanese earthquake. Smaller markets like Philippines and Indonesia performed better, benefiting from positive expectations for their domestic consumption sector.

Atlantis : Atlantis posted the highest underperformance this quarter with its Chinese and Indian stock selection (mainly smaller cap stocks). Declines in cement production in India hurt India Cements Ltd, while Tianjin Port Development was oversold by the market.

At this stage Atlantis finds some stocks trading at the same valuation as end 2008. The stock market may recover quickly but Chinese CPI must have to peak first (above 6.0%). Fears of bubble on the real estate market are overdone as only the “high end of the market” is concerned.

The solar sector is priced at pessimistic levels despite the fact that China will double its capacity and Germany now wants to avoid nuclear plants in the future (the Chinese government may eliminate smaller companies to get homogenous supply). The export sector should do better than what market currently expects.

Many sectors offer great opportunities like smartphones, LED lighting,...

Market perspective

The current macro picture is gloomy with European debt concerns depressing investors while US desperately tries to increase the borrowing ceiling before the August 2nd deadline. With devastated Japan added in the equation, developed markets are not in a good shape at all.

But looking with Asian (“ex Japan”) eyes, the picture is different:

- No problems of debt, these have been resolved at a costly price a long time ago
- No growth concerns, as economies are still dynamic or coming back under control such as China
- The main care is rising inflation, mainly stemming from food inflation

Central Banks had no choice but to tighten their monetary policy for the last several months. The good news today for Asian markets is that we should soon start to see inflation decrease as rate rises have slowed down the economy and base effects will start soon. One further rate hike was still anticipated in China by the managers of APP, probably after a last negative figure on the CPI (probably higher than 6% in China).

Once markets will stop fearing rate increases, investors may pay more attention towards good quality stocks which now trade at bargain prices. It is highly important to discriminate between expensive and cheap stocks, which is the best field for active managers. The second half of the year should then be far better for Asia.

DGI will do some changes into the manager selection of APP and the allocation between managers will be improved during this third quarter.

ANNEX

- Geographical breakdown by manager as at 30st June 2011

	Sloane	ARN	Hamon	Comgest	Atlantis	APP	Bench
HK / China	23.7%	53.6%	40.0%	31.9%	36.2%	34.9%	35.3%
India	20.6%	3.4%	14.6%	9.5%	3.3%	11.4%	10.2%
Indonesia	18.6%	6.5%	7.2%	5.6%	5.9%	9.8%	3.7%
Korea	18.9%	13.6%	14.1%	10.6%	21.2%	16.0%	20.8%
Malaysia	2.5%	0.0%	2.6%	13.2%	4.3%	4.3%	4.4%
Philippines	0.0%	0.0%	1.1%	0.0%	1.0%	0.7%	0.8%
Singapore	1.2%	10.1%	0.0%	7.2%	11.2%	5.0%	6.9%
Taiwan	3.2%	3.0%	18.1%	19.0%	12.1%	10.4%	15.5%
Thailand	9.5%	9.8%	1.8%	3.0%	4.2%	5.8%	2.4%
Others	1.3%	0.0%	0.0%	0.0%	0.0%	0.5%	0.0%
Cash	0.5%	0.0%	0.5%	0.0%	0.6%	1.2%	0.0%

Internal data as at 30/06/11

- Overlap : 19 stocks (246 stocks in the portfolio of core managers)
- Other statistics :

Risk Measures	APP	MSCI Asia ex-Jpn
Percentage of gaining periods	58.4%	54.2%
Percentage of losing periods	41.1%	45.8%

Tracking Measures			
Beta	0.78	R-Square	0.80
Alpha	0.41%	Alpha P-value	6%
Tracking Error	11.86%	Information Ratio	0.35
Bull Beta	0.73	Up Participation	95.1%
Bear Beta	0.74	Down Participation	83.9%

Monthly Value at Risk	APP	MSCI Asia ex-Jpn
At 95%	13.1%	15.1%
At 99%	17.3%	19.9%

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