

ASIA PACIFIC PERFORMANCE SICAV

QUARTERLY REPORTING

December 2010

Introduction

Asian markets remained in a trading range during the quarter. The MSCI AC Asia ex-Japan (the benchmark) rose 6.7% in Q4, pushing its yearly performance to 19.6%. Euro investors who did not hedge their currency exposure gained even more as the USD appreciated by 6.5% against EUR during 2010.

The MSCI World regained some ground in Q4 with a performance of 8.9% but is still far below Asian markets on a year-to-date basis at 11.8%.

Markets remained concerned by Europe's sovereign debt crisis. Spreads of Spain, Italy, Portugal, Greece and Ireland all went up significantly which increased global risk aversion. Spain will have huge financial needs within the next few weeks as a lot of debt will mature. At such a high level of interest rates, investors wonder if the country will be able to repay debts in the future.

Macro economic figures continue to demonstrate robustness amongst Asian countries. Domestic consumption and healthy public finance are important drivers of growth for the coming years. There are still uncertainties in developed markets but the US should avoid a double dip and Germany remains the growth engine in Europe.

2010 was particularly difficult for investment managers. Asia Pacific Performance Sicav (APP) was up 12.1% which is -7.5% below the benchmark for the whole year. The assets under management of APP were 3.6 millions USD lower than at the beginning of the year as the number of units into the fund decreased by 9.3%. The total assets under management stood at 649.4 mn USD as at end of year.

Asian Economies

Macro review

The Federal Reserve (Fed) has launched a second round of monetary stimulus (QE2) in November. The Fed will buy \$600 billion in long-term Treasuries over the next 8 months and will hold its reference rate at exceptionally low levels for an extended period. This provides ample liquidity to countries with a peg with the USD, like Hong Kong.

Growth is back to normal in Asia thanks to sustained domestic consumption growth. Furthermore the export level in some countries is back to historical highs. Inflation is rising globally in Asia and some Central Banks will have to take action.

Geopolitical risk has increased significantly during the quarter after artillery exchange between the Koreas.

Countries and stock market performances

China : Guidelines for the next Five Year Plan (2011-2015) have been decided and will be publicly announced in March 2011. This plan addresses rising inequality, favour wealth distribution, domestic consumption and improve social safety nets. Another main topic to be addressed will be the energy intensity per unit of GDP as it now stands 3.9 times higher than in the US and 8.2 times higher than in Japan. Enhancing environmental protection will be a key issue.

The Chinese administration clearly wants its industries to focus on higher value-added products and on export quality control. Furthermore, China has launched a campaign to crack down on counterfeit products and eliminate violations of intellectual property rights.

Monetary policy remains under the spotlight as CPI rose 5.1% yoy in November. This sharp rise is well above Public Bank of China's (PBOC) target and mainly comes from food prices which rose 11.7% yoy (fruits were up 28.1%, vegetables up 21.3% and eggs up 17.6%). CPI core was up 1.9%, close to its highest level reached in 2008. PBOC has increased interest rates 2 times last quarter. This involved increasing both the one-year lending rate and deposit rate (to 5.81% and 2.75%). The Central Bank also raised the Bank's reserve requirement ratio six times this year.

The last move in interest rates occurred on December 25th taking the markets by surprise. It is widely expected that China will go on increasing interest rates and reserve ratio, let the Yuan appreciate smoothly and take qualitative measures such as price controls to curb inflation pressures in 2011. Financial markets have taken this news negatively but it should not be considered as a bearish signal. China increased rates 7 times (and reserve ratio 11 times) between 2006 and 2007.

The performance of the MSCI China Total Return in USD in Q4 was 0.7% only. The year-to-date performance is now up a modest 4.8%. The MSCI China A (not accessible to most foreign investors) was down 7.6% in 2010.

Hong Kong : MSCI Hong Kong recorded a 4.8% performance in Q4 and 23.2% year-to-date. Contrary to China, inflation is not a concern in Hong Kong as CPI was only rising 2.9% yoy and food prices are only up 3.8%. Hong Kong is still benefiting from QE2 as interest rates remain low in the US.

India : inflation in India is slightly coming down and reached an 11-month low at 8.3% in November. A survey conducted by the Reserve Bank of India (RBI) showed consumers anticipate that inflation will reaccelerate. Poor transport capacity and power deficit both can explain that prices get under pressure. As a result, RBI decided to make a temporary pause in its tightening cycle.

MSCI India returned a modest 2.3% in Q4 (in USD) and 20.9% ytd which is just above the return of MSCI AC Asia ex-Japan

Indonesia was up 33.9% in USD in 2010 despite a poor quarterly performance in Q4 (at -0.7%). The Rupiah appreciated 4.3% against USD but the Central Bank remains mainly concerned by the resurgence of inflation in the country (at 7.0% instead of 2.8% at the beginning of the year) and will probably tighten its monetary policy soon. Controls on the exchange rate cannot be ruled out if the expected rate increase leads to higher investment flows in the country.

Malaysia : the MSCI Malaysia rose 5.5% in USD in Q4 and 37.0% year-to-date. This strong yearly performance can partly be explained by the 10.6% appreciation of the Ringgit against the USD in 2010. The government has boosted domestic investment to offset the export slowdown resulting from the currency appreciation. Malaysia is an export driven economy and its GDP could be hurt by slower exports. Inflation remains under control at 2.0%

Singapore : the market was up 6.8% in USD (+22.1% year-to-date). The GDP figures were very strong (+12.5% yoy at the end of December) after a surge in manufacturing output (base effects are still playing). The PMI index is standing just above the 50.0 level. The Singapore dollar appreciated 8.7% against the USD during the year.

South Korea : After North Korea was suspected of the destruction of a South Korean military ship a few months ago, Pyongyang fired artillery shells on Yeonpyeong island which belongs to South Korea and is located in the Korean Sea. The South responded with its own fire and announced joint military exercises with US forces. China's Foreign Ministry has begun working to ease tensions in the Korean peninsula.

South Korean GDP is back to normal at 4.4% (at end of Q3), with industrial production and exports growing respectively 10.4% and 23.1% yoy. Inflation is still manageable at 3.5% and unemployment dropped to pre-Lehman crisis levels.

The quarterly performance of MSCI Korea was 12.8% in USD (12.3% in local currency). That was the second best performance after Taiwan. High tech companies like Samsung Electronics soared 22.1% in USD, benefiting from strong appetite for its smartphones and tablet devices.

On a year-to-date basis, MSCI Korea was up 25.8% in USD, including the 3.3% appreciation of the Korean Won.

Taiwan posted the strongest quarterly performance in USD with a rise of 17.3% for the MSCI Taiwan in USD. This performance comes from strong demand for IT stocks and the sharp appreciation of 6.2% of the Taiwanese Dollar during the quarter.

The Central bank tightened lending rules to avert a property bubble and unveiled additional measures to counter capital inflows

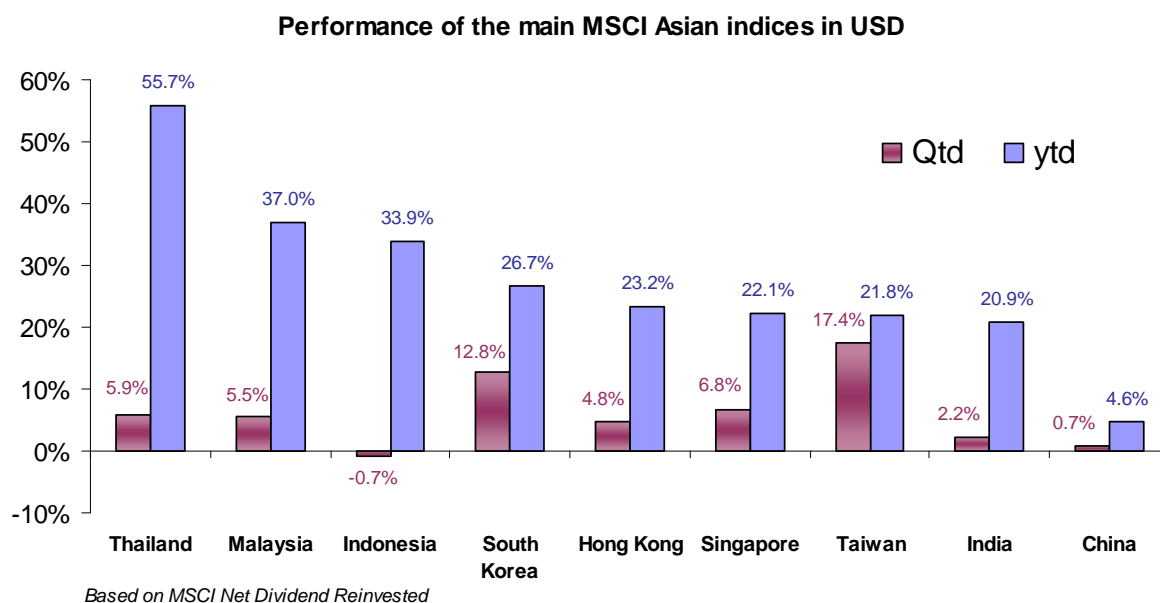
Exports in Taiwan are equivalent to about two-thirds of GDP and the Central Bank warned it will use exchange-rate derivatives to combat currency speculation by foreigners if needed. Currency appreciation is a clear threat to exporter earnings.

Thailand posted the strongest annual performance of 55.7% (+5.4% in Q4) in South-East Asia thanks to the 9.9% appreciation of the Thai Bhat against USD and despite riots by Thai Red shirts in the spring.

Thailand's GDP was 6.7% yoy at the end of Q3. CPI is under control at 3.0%. Despite the currency appreciation, exports are still rising by a healthy 28.5%.

The Central Bank raised rates in December and signalled further increases to prevent any acceleration in the inflation rate as oil price fluctuations, Forex volatility and higher commodity prices are all risk factors for inflation. Foreign inflows were so huge during the year that a 15% tax on interest rates and capital gains on bonds has been decided.

The performance of the different markets in Q4 and ytd is expressed in the graph below in USD.



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 31/12/09	Weight as at 30/09/10	Weight as at 31/12/10
<i>Sloane Robinson</i>	38.5%	34.6%	32.3%
<i>Hamon</i>	22.3%	22.2%	22.7%
<i>Comgest</i>	19.2%	18.1%	17.8%
<i>Atlantis</i>	10.0%	11.8%	13.4%
<i>Lloyd George / ARN *</i>	8.7%	9.3%	10.6%
<i>Farm Team</i>	1.1%	2.1%	2.4%

*ARN replaced Lloyd George on June 1st 2010

Three main decisions have been implemented into the global portfolio this year. The first one relates to the flexibility to change managers in APP by the introduction of the Farm Team. Silver Metis started to manage a smaller portfolio with the same guidelines as our core managers. Silver Metis is one potential candidate if there was a need to change one core manager. The second change was ARN who took over Lloyd George's portfolio as a core manager on June 1st. Finally, the Board of Directors of APP has decided to limit to 20% the percentage of cash managers can hold. This decision comes from the asymmetric risk that has been noticed. Gains of limiting the downside through massive use of cash in the portfolio can be quickly erased when market trends reverse. The risk of not being invested is then high.

Asia Pacific Performance ended the quarter with an absolute performance of 4.0% which is 2.7% below the benchmark. The good performance of ARN, Atlantis and Comgest in Q4 was not sufficient to compensate the underperformance registered by Sloane and Hamon.

The year 2010 was full of contrasts. The second quarter proved to be very difficult for all managers except Sloane Robinson while the third quarter was very good. On a year-to-date basis, Atlantis outperformed the benchmark by 6.9% after being the best performer last year (outperformance 2009 was 25.4%). Comgest was only 0.2% below the benchmark. The excess performance of Sloane Robinson (1.6%) at the end of Q3 turned to an underperformance of 4.0% at the end of the year as December proved to be a very difficult month. Despite outperforming in Q1 and Q3, the performance of Hamon was very disappointing as the portfolio lost 15.6% against the benchmark for the full year. ARN took over the portfolio of Lloyd George on June 1st and made gradual adjustments to the portfolio. ARN had the best performance in Q4 amongst the different managers of APP. The choice of Silver Metis, as a member of the Farm Team, proved to be successful as the manager was able to outperform since the beginning of the mandate (and 3 quarters in a row).

Performance	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Ytd
<i>Sloane Robinson</i>	0.6%	-3.2%	16.8%	1.6%	15.6%
<i>Atlantis</i>	3.2%	-7.5%	22.5%	8.2%	26.5%
<i>Comgest</i>	1.5%	-5.7%	16.9%	6.8%	19.4%
<i>Hamon</i>	-4.0%	-12.2%	19.1%	3.6%	4.0%
<i>Lloyd George / ARN 1st June</i>	-1.6%	-7.0%	12.5%	8.8%	12.0%
<i>Silver Metis (Farm Team)</i>	n/a	-2.2%	19.4%	7.8%	n/a
ASIA Pacific Performance	-0.5%	-7.5%	17.1%	4.0%	12.1%
MSCI AC Asia ex-Japan	1.3%	-4.9%	16.4%	6.7%	19.6%

The MSCI AC Asia ex-Japan recorded a performance of 6.7% in Q4. Some of the larger cap stocks outperformed significantly with Samsung Electronics (3.5% of the index) up 17.8%, Taiwan Semi Conductor (2.3% of the index) up 17.1%, Hon Hai Precision (1.2% of the index) up 13.2% and Infosys Technologies (1.2% of the index) up 15.8%.

Sloane Robinson : underperformed significantly in Q4. India and Indonesia which are the highest overweights in the portfolio were lagging other markets. Despite its exposure on Samsung Electronics and Infosys, Sloane Robinson was penalized by a poor stock selection (unusual for this manager). SKS Microfinance in India lost 51.5% in Q4 and detracted 1.2% as it is a non-benchmark bet. Cash holdings detracted 0.6%. The Indonesian Bank Mandiri lost 10.4% in Q4 and detracted another 0.5%. The stocks selection on Financials and Materials both detracted more than 1% of performance. However there was also positive contribution coming from holdings in Hengdeli (branding watches in China), Hana Financial (which announced the acquisition of a 51% stake in Korea Exchange Bank) and Wynn Macau (casino resort).

George Robinson sees the drop in the Indonesian market as a consequence of the very strong performance recorded over the last year and a recent shift in investor sentiment away from India and South East Asia towards North Asia. Indonesia continues to be a good long term growth story underpinned by high commodity prices with some very profitable companies at reasonable valuations. Expectations of higher interest rates have increased the discount rate on the market even though earnings growth remains strong.

Hamon : The underperformance was mainly due to the portfolio's country allocation, with an overweight position in China's equity market while staying underweight in Taiwan and Korea. Sluggish returns in China's equity market contributed negatively to the performance. Shanghai Friendship was the best performer, rising 53.8% over the quarter after the company purchased its sister department store chain in Shanghai and outlined corporate restructuring plans.

In India, after an early October rally, market sell-off in November. Heavy profit-taking dragged Indian mid and small caps within the portfolio, including Reliance Infrastructure and Unitech, which were down 20.7% and 24.5% respectively. Fears of additional interest rate hikes also pulled the index lower. However, the portfolio's holdings are still fundamentally sound with undemanding valuations benefitting from India's long-term growth story.

The stock selection on the Information Technology sector was the main detractor of performance in Q4 (-2.1%). The overweight of the Consumer Staples in the portfolio was a wrong bet but the stock selection in this sector more than offset the allocation effect.

Hugh Simon sees the internationalization of the RMB as a positive catalyst to reduce the discount on the B-share market. Asian equities markets are expected to remain volatile during the upcoming quarter, as concerns over tighter credit policies linger on investor sentiment. However, strong corporate earnings announcements and steadied long-term growth prospects should help offset sentiment worries.

Comgest : the performance was in line with the benchmark in Q4. The Information Technology sector outperformed significantly with HTC and Taiwan Semi Conductor each contributing 0.9% to the performance. Industrials also added 0.6% thanks to Johnson Electric in Hong Kong which is a non benchmark bet. On the other side Telekom Indonesia detracted 1.2% and Esprit Holdings also reduced the performance by 0.6%. Not holding Samsung Electronics in Q4 detracted 0.5% of performance.

Vincent Strauss keeps a cautious approach on the market, inflation is rising (higher food prices and lack of good infrastructure and distribution circuits). There are risks of further monetary tightening in several countries. Mr Strauss also points out that some countries like Singapore, Malaysia and Taiwan are now agreeing to let their currency appreciate as they do not need the mercantilist approach of China to export.

Atlantis : the good performance recorded in Q4 helped Atlantis outperform 6.9% in 2010. A big underweight in Financials (14.7% vs 32.0% in the benchmark) and a good stock selection within the sector both contributed very strongly to the performance of the portfolio. This added 1.3%. The overweight and stock selection in the IT sector also proved very rewarding as the contribution of this sector was 1.6%. This good result was obtained despite not holding large cap companies like Samsung Electronics, TSMC or Hon Hai (as Atlantis focuses on mid and small cap stocks). This reinforces the strong views that the manager took in the portfolio. The rise of the South Korean construction company GS Engineering contributed the most at 0.7%. Another industrial company specialized on precision metal components, IPE Group, gained 52.8% during the quarter. The main detractors of performance were China Taisan (knitted fabrics) and not holding Samsung Electronics.

Jospeh Wat expects that the OECD Leading Indicators will bottom out at the end of Q1 2011. As other indicators are bottoming out, the manager expects to see a recovery in Asian exports by Q2 2011. The environment remains good and the impact of QE2 has not been seen yet. The preference is for global cyclicals rather than domestic stocks due to valuation concerns and policy risks.

ARN Investment Partners : was the strongest performer in Q4 as large cap stocks rallied. ARN holds 9 of the 10 biggest stocks in the index with significant overweights on Samsung Electronics, Taiwan Semi Conductor and Hon Hai which all contributed very strongly to the performance. But the biggest contribution to the portfolio came from holding other stocks like Sembcorp Marine in Singapore (ship building operator) or Hong Kong Exchange which will undoubtedly go on benefiting from the internationalization of the RMB. Performance detractors were holding cash during the quarter (-1.0%) and the drop of Li Ning (sport shoe distributor) which lost 30.0%. ARN has fully proven its complementarity with the other managers of APP.

Christopher Wong believes that the lack of negative news from overseas is a key factor behind performance delivery for an Asian portfolio in 2011. Asian fundamentals are currently at one of the strongest points we have seen in five years. Strong growth and earnings have yet to be fully appreciated by the market because of repeated credit backlash coming out from Europe. ARN's confidence is supported by the fact that the world is going to experience a third year of almost zero interest rates.

Market perspective

Asia Pacific Performance registered a second year of underperformance while the index more than doubled during this period. Asia Pacific Performance remains widely diversified with its unique combination of specific investment strategies. All managers have been under review during the quarter and still provide confidence in implementing their strategies.

Further monetary tightening cannot be ruled out in some Asian countries as inflation is getting higher and will result in an increase of interest rates. This could attract foreign capital flows and push currencies higher. Central banks will prevent their currencies to appreciate too quickly as this could hurt the export sector significantly and may take capital control measures.

Earnings growth remains strong in Asia and could surprise on the upside. There is no bubble on the equity market at this stage and stocks remains fairly priced. Asia will remain the world's engine of growth for the next quarter.

Details and statistics about the fund have been added in Annex I (next page).

Frederic ADAM
Degroof Gestion Institutionnelle-Luxembourg

ANNEX

- Geographical breakdown by manager as at 31st December 2010

	Sloane	ARN	Hamon	Comgest	Atlantis	APP	Bench
HK/ China	24.3%	45.0%	41.8%	36.4%	36.6%	34.4%	36.3%
India	22.5%	4.0%	17.9%	7.1%	4.4%	13.6%	11.0%
Indonesia	15.1%	0.0%	6.7%	4.9%	6.4%	8.2%	3.2%
Korea	14.8%	18.0%	12.6%	14.8%	14.0%	14.5%	19.7%
Malaysia	1.5%	0.0%	0.0%	7.5%	2.3%	2.2%	4.1%
Philippines	0.7%	0.0%	0.0%	0.0%	1.2%	0.7%	0.7%
Singapore	5.9%	13.0%	1.4%	7.4%	13.1%	6.8%	6.8%
Taiwan	1.2%	14.0%	14.0%	20.0%	17.2%	11.3%	15.9%
Thailand	7.2%	1.0%	4.2%	0.0%	3.8%	3.9%	2.4%
Others	1.6%	0.0%	0.0%	0.0%	0.0%	0.6%	0.0%
Cash	5.2%	5.0%	1.3%	2.0%	0.9%	3.8%	0.0%

Internal data as at 31/12/10

GICS	Sloane	ARN	Hamon	Comgest	Atlantis	APP	Bench
Cash	5.3%	5.0%	1.3%	2.0%	0.9%	6.5%	0.0%
Consumer Discretionary	18.0%	7.8%	12.4%	14.9%	4.0%	12.3%	8.4%
Consumer Staples	5.0%	1.9%	14.9%	8.4%	2.8%	7.0%	4.7%
Energy	4.3%	11.8%	7.0%	0.0%	0.6%	4.2%	8.2%
Financials	24.2%	19.0%	19.3%	15.4%	12.6%	18.1%	31.6%
Health Care	3.7%	0.0%	0.0%	2.5%	0.0%	1.6%	0.8%
Industrials	16.8%	17.4%	11.6%	9.0%	42.8%	16.8%	11.0%
Information Technology	9.0%	22.1%	20.1%	26.6%	26.6%	18.0%	18.0%
Materials	3.4%	10.3%	10.8%	0.0%	6.3%	5.5%	8.2%
Telecom	4.5%	4.7%	0.0%	17.1%	0.0%	2.3%	5.8%
Utilities	5.8%	0.0%	2.6%	4.1%	3.6%	5.0%	3.3%
Others	0.0%	0.0%	0.0%	0.0%	0.0%	2.9%	0.0%

Internal data as at 31/12/10

- Overlap : 15 stocks (241 stocks in the portfolio)
- Top 10 concentration APP : 13.6% vs Benchmark 16.9% (3 stocks in common in both Top 10 holdings)

- Other statistics :

Risk Measures	APP	MSCI Asia ex-Jpn
Percentage of gaining periods	59.2%	54.9%
Percentage of losing periods	40.2%	45.1%

Tracking Measures			
Beta	0.78	R-Square	0.80
Alpha	0.46%	Alpha P-value	4%
Tracking Error	12.00%	Information Ratio	0.40
Bull Beta	0.73	Up Participation	95.0%
Bear Beta	0.75	Down Participation	83.1%

Monthly Value at Risk	APP	MSCI Asia ex-Jpn
At 95%	13.3%	15.3%
At 99%	17.5%	20.1%

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