

ASIA PACIFIC PERFORMANCE SICAV

QUARTERLY REPORTING

March 2011

Introduction

The cataclysm of the earthquake in Japan has influenced Asian markets in March. Telling that the benchmark (MSCI AC Asia ex-Japan) ended up 1.2% in Q1 is anecdotic compared to what occurred in Japan on March 11th. Many people died after the tsunami and the problems of the nuclear plant of Fukushima are still not yet resolved which leaves many uncertainties.

The global context was not easy for emerging markets as a whole over the last few months as they face rising inflation pressures on one side and unrest in the Middle East have made investors more cautious about the asset class on the other side. Oil prices went up as a consequence which is traditionally not good for oil dependent economies.

With the launch of QE2 in the US, investors have found reasons to reshuffle their portfolio and took profit from their emerging markets exposure. Massive outflows were noticed at the beginning of the quarter. This has significantly influenced market returns.

Managers of Asia Pacific Performance (APP) were under pressure in this difficult context. Despite their different investment strategies, all of them underperformed during the quarter and APP was down 3.5%. The total assets under management are now standing at 494.3 mn USD.

All performances here below are reported in USD.

Asian Economies

Macro review

Asian markets remained quite volatile in Q1. The benchmark rose 1.2% in Q1 while the MSCI world gained 4.8%, outperforming Asian market by 3.6%.

Markets strongly increased at the beginning of the year thanks to easing tensions in the peripheral Europe (successful auctions) before correcting after the Japanese earthquake on increasing global risk aversion. Furthermore, peripheral concerns soon came back in the spotlight. Indeed, major rating agencies downgraded the weakest sovereign countries pushing their borrowing costs to record highs. Portugal was particularly scrutinized since the resignation of its prime minister and as the country will have two major bond redemptions in April and June.

Macro economic figures continued to be well oriented in the Asian economies even though inflation remains one of the major theme at this stage. Growth has probably peaked in late 2010 for Asian economies and a gradual deceleration is expected into 2011. However, Asian economies are still expected to grow at a faster pace than developed economies, which released slower (even though improving) growth rate compared to Asian economies.

The US economy benefited from strong investment (thanks to improving corporate profits) and net exports while consumption remained more resilient than expected on the back of improving labour market conditions. In Europe, there are still huge disparities between the peripheral countries and the core Europe, which is still supported by impressive growth rate in Germany.

Emerging central banks are actually facing a dilemma between rising their benchmark rate in order to limit the inflation pressure (mainly due to rising commodities and food prices) while on the other hand, they are trying to limit their currency appreciation not to undergo a too severe decline in their net exports. Asian Central Banks have been raising rates for some time now and could be the first to stop their tightening policies. Inflation will go on rising before base effects start to limit further CPI rises.

Countries and stock market performances

China : Chinese CPI continued to hover at high level (4.9% yoy) mainly due to the food component, which increased 11% on a year-on-year basis. Food (+31%), eggs (+18%) and meat (+13%) are the major responsible of this increase. On the other hand, non food inflation continued to hover at low level (2.3% yoy) as well as service one (3.8% yoy). To reflect the growing part of the housing sector in its economy, China has recently decided to revise its CPI weights and to increase the weight of housing at the expense of all the others components. With the new weight, food (32%) and housing (17%) represent half the index.

On the monetary front, the People's Bank of China (PBOC) recently hiked for the ninth times its reserve requirement ratio (RRR) since January 2010 in an attempt to withdraw liquidity from the financial system. The RRR for large banks now evolves at 20% while RRR for small and medium banks is 18%. This tool has the advantage to withdraw liquidity from the financial system without attracting speculative inflows. The PBOC has also hiked both its lending and deposit rates, which now evolve at 6.31% and 3% compared to 5.31% and 2%, respectively at their bottom. The PBOC should continue its tightening cycle in the months to come and should also further hike its RRR given the still negative real deposit rate. The MSCI China increased 2.9% since the beginning of the year.

Hong Kong : The economy recovered a strong growth rate in 2010 (6.8%) after the 2.8% decline in 2009. In Q4, the economy grew at 6.2% yoy. Consumption and investment were the main engines of growth with an increase of respectively 7.1% and 8.8% on a year-on-year basis. Inflation is also climbing in the country (+3.7%) due to increasing food prices (+5% yoy) while the unemployment rate followed a very positive trend. It now evolves at 3.6% close to its 2008 record low level (3.3%). The government has also taken some anti-inflationary measures to cool inflation (electricity tariffs subsidies). MSCI Hong Kong was up 1.3% in the first quarter.

India : Indian economy grew at 9.7% yoy in Q4 thanks to strong consumption (9% yoy) and investment (6% yoy) figures. India has the highest inflation rate within Asian countries mainly due to the predominant place of food prices in its CPI index. The RBI has already hiked its monetary policy by 200 bps since April 2009 in an attempt to cool inflation. However, the current benchmark rate (6.75%) is still far from the 9% peak reached in 2008. Further rate hikes should follow as the central bank announced its intention "to persist with the current anti inflation measures". MSCI India declined 5.1% in the first quarter.

Indonesia : The economy increased 6.9% yoy in Q4 due to strong investment (8.7% yoy) and government spending (7.3% yoy). Indonesia has the second highest inflation rate (6.7%) within Asian economies after India. The Indonesian central bank has just began its rate hike cycle in February (+25 bps to 6.75%) leaving real rates close to 0. The unemployment still evolved at high levels (7.1%) but is on a declining trend. The MSCI Indonesia gained 4.7% over the quarter.

Malaysia : Malaysian economy grew at 4.8% yoy in Q4 thanks to strong investment (13.5%) and consumption (9.4%) According to the central bank, growth should evolve between 5 and 6% in 2011 led by strong domestic consumption. Malaysian central bank has tightened three times its monetary policy since March 2010. Its reference rate now evolves at 2.75%, not so far from the Malaysian actual inflation rate, which hovered at 2.9% (one of the lowest inflation rate in Asia). Malaysia also benefits from one of the lowest unemployment rate in the area (3.2%). MSCI Malaysia rose 4.3% in the first quarter.

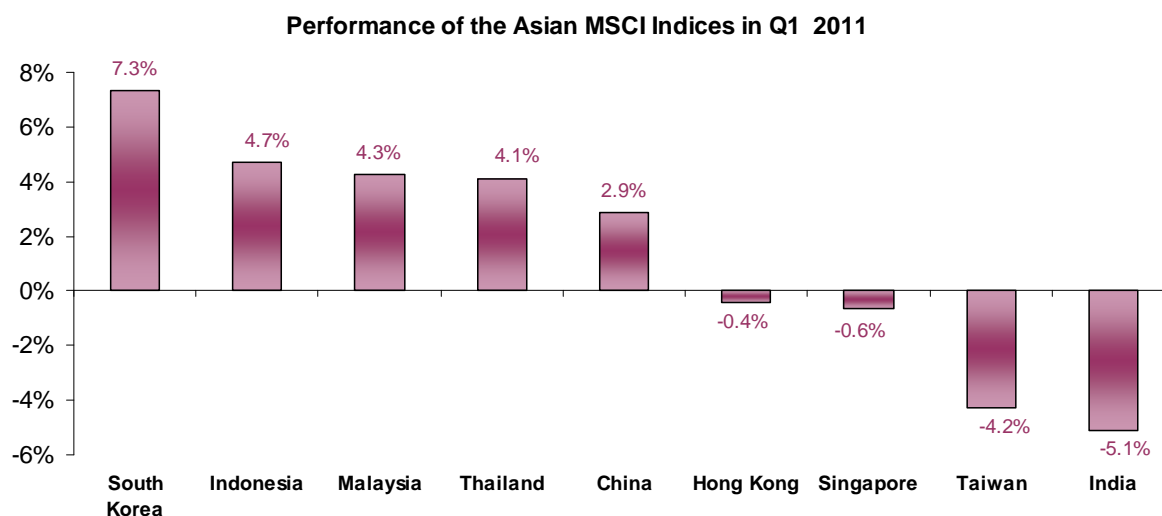
Singapore : Singapore economy grew at an impressive 12% rate yoy in the fourth quarter and benefits from a very low unemployment rate (2.2%). Inflation stands at 5% which is at the highest level since 2008. However, it is expected to gradually decelerate throughout 2011. MSCI Singapore lost 0.6% during the quarter.

South Korea : The economy grew at 4.7% yoy in Q4 thanks to investment (5.2%) and consumption (3%). South Korea has already tightened four times its monetary policy by 25 bps to bring its benchmark rate to 3%. Without surprise, inflation is also on an increasing trend (4.7%) above the 2 - 4 % target range. Further rate hikes should follow as according to the central bank “high rising price trend should persist” in the months to come. South Korea is one of the only Asian countries to have a negative trend in its unemployment rate, which increased from 3.2% at its bottom to 4%. MSCI South Korea gained 7.3% since the beginning of the year.

Taiwan : The economy grew at 5.1% yoy in Q4 mainly due to investment (13%). Central bank has already tightened four times its monetary policy to bring its benchmark rate to 1.75% from 1.25%. The country benefits from the lowest inflation rate (1.3%) within emerging economies, which leave real rates in positive territory. The unemployment rate pursued its positive trend and declined to 4.7%. MSCI Taiwan declined 4.3% in the first quarter.

Thailand : Thailand economy grew at 3.8% yoy in Q4 supported by positive investment figure. Central bank began its tightening cycle in July 2010 and has since tightened five times its benchmark rate by 25 bps to 2.5%. Real rates are slightly positive given the fact that inflation evolves above 3%. The central bank has recently revised upward (+50 bps) its inflation expectations for the year to a 3 – 5 % range, which should lead to further tightening in the coming months. MSCI Thailand gained 3.8% over the quarter.

The stock markets



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 31/12/10	Weight as at 31/03/11
<i>Sloane Robinson</i>	38.5%	32.3%	28.5%
<i>Hamon</i>	22.3%	22.7%	20.9%
<i>Comgest</i>	19.2%	17.8%	17.0%
<i>Atlantis</i>	10.0%	13.4%	15.5%
<i>Lloyd George / ARN *</i>	8.7%	10.6%	14.1%
<i>Farm Team</i>	1.1%	2.4%	3.3%

*ARN replaced Lloyd George on June 1st 2010

The relative weight of Atlantis and ARN increased at the expense of the two biggest managers Sloane and Hamon during the Quarter. This rebalancing has been done when outflows occurred during the month of March.

Asia Pacific Performance ended the quarter with a negative performance at -3.5% which is 4.7% below the benchmark. No manager was able to outperform in Q1. This stresses how difficult markets were in this uncertain context. In example, after the Japanese earthquake, investors suddenly expected that South Korean companies could benefit from a standstill of Japanese production and Seoul's market soared. South Korea was heavily underweighted by almost all managers.

The MSCI AC Asia ex-Japan recorded a performance of 1.2% in Q1. The splitting of the benchmark shows that large caps were the only performers (+1.8%) while mid and small caps components were lagging.

Performance	2010	Q1 2011
<i>Sloane Robinson</i>	15.6%	-4.5%
<i>Atlantis</i>	26.5%	-4.4%
<i>Comgest</i>	19.4%	-4.0%
<i>Hamon</i>	4.0%	-4.9%
<i>Lloyd George / ARN 1st June</i>	12.0%	--0.5%
<i>Silver Metis (Farm Team)</i>	n/a	-1.6%
ASIA Pacific Performance	12.1%	-3.5%
MSCI AC Asia ex-Japan	19.6%	1.2%

Sloane Robinson : Sloane's overweight on India, and poor stock selection in Thailand (Thai Airways lost 20.8%) and China (Airmedia dropped 24.4%) all detracted performance in Q1. The heavy underweight of Taiwan proved to be a pretty good allocation decision, coupled with a positive contribution of the stock selection.

The underperformance has to be viewed in the context of rising bond yields and inflationary pressures which have impact on individual names. Since QE2 started in November last year, there was a powerful rotation towards developed markets and away from emerging markets as investors have focused on improving growth fundamentals in the US and Europe. Furthermore, investors considered Asian central banks were often behind the curve to avoid inflation pressures that were building for some time. This rotation can go on for a while but the bulk of the underperformance in Asia is over and there is significant potential for a reversal of the trend later in the year.

The recent performance of Asian markets in the face of high oil prices, the Japanese earthquake and political instability in the Middle East has been encouraging. Sloane expects the headwind of inflation in other Asian markets is likely to abate due to supply responses, yoy base effects and the success of central banks in curbing excess demand. Against this backdrop, the more stable structural growth opportunities that the Asian markets offer will appear. China may present investment opportunities ahead of other Asian markets.

Hamon : The overweight exposure and stock selection in India proved to be costly during the Quarter. Chinese stocks listed on Nasdaq also hurt performance (China Valves lost 55.7% in Q1). The underweight on South Korea was more than offset by a strong stock picking in the country.

Markets have been disturbed by continuing concerns about monetary tightening in China and India, followed by the terrible earthquake and tsunami in Northeast Japan. South Korea benefited from disruptions of Japan's supply chain and semi-conductor holdings also performed well. But tech hardware names were under selling pressure after the earthquake. Advanced engineering and nuclear equipment makers led the underperformance as sentiment towards nuclear power fell.

The overall impact of Japan's earthquake will likely be temporary. The growth dynamics of emerging Asia remains intact. Hamon maintains its overweight position in China and India, particularly in infrastructure related, consumption, software and advanced engineering names.

Comgest : Stock selection in China and South Korea detracted performance while the global asset allocation performed in line with the benchmark.

Food and oil prices are rising which is fuelling inflation and request higher interest rates. In developed countries, easy monetary policy also seems to come to an end. Furthermore, the tragic events that occurred in Japan increase uncertainties.

The portfolio was hurt by cyclical factors but stocks in the portfolio remain structurally very strong. Those companies still have favourable earnings outlook on the long run and are currently trading at cheap levels. The risk reward profile of the portfolio is attractive.

Atlantis : Atlantis suffered from its small and mid cap bias as the stock selection detracted performance vs. the benchmark. On the other side the global allocation was performing well.

Atlantis was overweight electronics which bore the brunt of the supply disruption following Japan's earthquake. Emerging markets which were already grappling with high inflation due to soaring food prices now have to contend with soaring oil prices. The global outlook continued to see signs of recovery with the US ISM data reaching a 7-year high. This bodes well for Asian exports which lag the US ISM by six months. As exports bottomed in September 2010, we should expect strong exports recovery now.

The main risk for Atlantis comes from unrest in the Middle East which could put even more pressure on oil prices. Atlantis seeks to search for value and opportunities after investors left the market.

ARN Investment Partners : ARN had a strong performance on its stock selection in Taiwan which almost covered the loss on South Korea.

ARN reacted cautiously after Japanese earthquake led to troubles at Fukushima. ARN took out positions across the manufacturing industry as the market was particularly complacent towards the risk of production disruption. Japan is an important manufacturer of key parts and components, which are essential to most high tech manufacturing. A Taiwanese manufacturer could claim they source most of their components locally, he may have forgotten to tell us he still depends on Japanese suppliers for that extra minor component in order to complete the manufacturing process. ARN eliminated most of its manufacturing exposures and reduced equity exposure.

The combination of Japan and Libya has not resulted into lower equity prices and the caution exercised by ARN in the week of March 17 turned out to be unnecessary. Christopher Wong came back to the market at an equally quick pace to minimize the reversal impact of underperforming in a rising market. ARN is back to a fully invested position but with a light portion of manufacturing companies to minimize risk to market complacency.

Market perspective

The earthquake in Japan has increased uncertainties, mostly with the risks arising from the nuclear plant of Fukushima. Disruption in Japanese production facilities may affect production at companies all over the world. This tragic event also reminds that Japan is a main producer of key components with a high added value

Inflation has increased in the region but Central Banks have already tightened their monetary policy. Once inflation stops increasing (which could happen sooner than market currently expects), investors may turn back to Asian stock markets. China which underperformed over the last two years could turn out to be the main beneficiary when investors come back.

The managers of APP had a difficult time but their portfolio should benefit from a market recovery. The diversification is still very high with a limited overlap between the strategies. Valuation of APP portfolio is also attractive with Forward PE at 10.6 (vs. 12.6 for the benchmark). Most of the managers find more opportunities in the mid cap segment of the market which is a significant difference with the benchmark.

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

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ANNEX

- Geographical breakdown by manager as at 31st March 2011

	Sloane	ARN	Hamon	Comgest	Atlantis	APP	Bench
HK / China	27.0%	63.0%	47.5%	31.4%	35.8%	38.5%	36.2%
India	16.2%	4.0%	14.2%	8.4%	3.6%	10.1%	10.6%
Indonesia	16.5%	1.0%	2.8%	5.2%	7.3%	7.5%	3.3%
Korea	7.7%	12.0%	17.2%	10.8%	18.6%	12.9%	20.4%
Malaysia	1.7%	0.0%	0.0%	11.5%	2.9%	3.0%	4.0%
Philippines	0.6%	0.0%	0.0%	0.0%	0.8%	0.6%	0.8%
Singapore	5.2%	15.0%	0.0%	6.7%	12.3%	6.9%	6.9%
Taiwan	4.4%	4.0%	16.1%	19.8%	14.0%	11.2%	15.4%
Thailand	9.3%	0.0%	2.1%	3.6%	3.2%	4.3%	2.5%
Others	1.7%	0.0%	0.0%	0.0%	0.0%	0.6%	0.0%
Cash	9.7%	1.0%	0.1%	2.7%	1.6%	4.4%	0.0%

Internal data as at 31/03/11

- Overlap : 21 stocks (216 stocks in the portfolio)
- Other statistics :

Risk Measures	APP	MSCI Asia ex-Jpn
Percentage of gaining periods	58.8%	54.5%
Percentage of losing periods	40.6%	45.5%

Tracking Measures			
Beta	0.78	R-Square	0.80
Alpha	0.42%	Alpha P-value	6%
Tracking Error	11.95%	Information Ratio	0.37
Bull Beta	0.73	Up Participation	95.1%
Bear Beta	0.74	Down Participation	83.5%

Monthly Value at Risk	APP	MSCI Asia ex-Jpn
At 95%	13.2%	15.2%
At 99%	17.4%	20.0%

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