

ASIA PACIFIC PERFORMANCE SICAV

QUARTERLY REPORTING

December 09

Introduction

Asia Pacific Performance will have its 15th birthday in February 2010. Since its inception, it has never experienced such a yearly rise of the benchmark. The MSCI AC Asia ex-Japan has posted an increase of 72.1% ytd and a rise of 6.6% in Q4. After a poor start, markets jumped an amazing 52% in just 3 months (March, April and May). It was then followed by a smoother rise.

Economic data had stopped deteriorating earlier this year and some investors came back to the stock markets, giving their favours to the stocks which had the biggest growth potential. While some cautious managers were only considering a bear market rally, others had positioned themselves into the most cyclical sectors which were priced as bargains as nobody considered them anymore.

In such a context, relative performance of managers has been huge against the benchmark. Those who had been aggressive made a lot of money while the cautious ones lost a lot of ground during March and April. It is quit difficult to blame managers not believing in a strong recovery as many uncertainties remained, mostly at the beginning of the year. The ones who earned the most money this year had suffered more in 2008. But they kept their investment strategy unchanged and it turned out to be rewarding. Once again, the mix of 5 different investment approaches proved to give a better diversification than investing in one single strategy only.

Asia Pacific Performance recorded a performance of 3.1% in USD during the Quarter, bringing the year-to-date performance at 58.2%. The assets under management of APP increased by USD 293.2 millions to USD 682.9 millions this year thanks to market performance and a rise of 9.8% of the fund's units. The section "Asset managers of Asia Pacific Performance" will detail the explanations of the underperformance of this year.

The Asian Economies

Macro review

Asian economies have benefited from the global economic improvement, fiscal stimulus and loose monetary policies. While developed economies recover smoothly, even export-dependant economies like South Korea or Singapore are already back on track with positive GDP growth. With China being the main growth driver, Asia is leading the world recovery.

Consumption growth is still rising in Asia while it remains low in developed economies which face poor consumer confidence. The best example is the auto sector. This sector has suffered from a poor background in western economies while it is expanding strongly in China with record sales. Chinese car makers are growing rapidly inside the country but are also starting to buy good quality car makers with specific technologies on foreign markets (Tengzhong bought Hummer, some assets of Saab were sold to BAIC and Geely has bought Vovlo from Ford).

The crisis has created opportunities and many Asian companies which are plenty of cash can now buy cheap assets or secure commodity supply. Once the world will completely get out of this crisis, it will appear that Asia has been reinforced. Its role in international institution should increase significantly and the G20 should soon replace the G7.

In its latest World Economic Report, IMF expects world growth for 2010 to come back to 3.1%, driven mainly by developing Asia which should post a growth of 7.6%. China and India are expected to grow by 9.0% and 6.1% respectively.

Some countries may tighten their monetary policies soon in Asia in order to prevent any hike in inflation. But Central banks must be really cautious now because raising rates could create massive inflow into such currencies offering higher remuneration. This could lead to imbalances. Some rate increases may be acceptable by the stock market but any increase higher than the consensus is a potential threat to stock prices.

The Copenhagen summit for climate change has left many disappointments. The good thing is that despite a strong agreement, many companies will focus their investments into cleaner technologies. Asia, including Japan, is working hard on it and could become a leader in new businesses. China for example has 10% of wind power parks in the world and is the first producer of solar cells. China is often told to be the biggest polluter in the world but if we compare (per capita) with the US, Chinese pollute four time less than American (per capita).

Countries and stock market performances

India : the Indian GDP should come in at 5.4% this year and is expected to grow quicker in 2010. Current growth was supported by strong consumer demand and was driven by the government's fiscal stimulus and higher wages. Both current account and budget deficit have been rising this year. Inflation has increased, one of the reasons being the poor monsoon season.

Infrastructure development and consumption will both remain the drivers of growth. A lot of things have to be done in India to improve transports, energy and water supply. The re-election of Prime Minister Manmohan Singh in spring led to some kind of euphoria on the stock markets in anticipation of new reforms.

The MSCI India rose 7.7% in USD during the quarter, leading to one of the strongest performances year-to-date at 102.8%.

China : the Chinese government has taken all necessary actions to prevent any drop in GDP. Exports have been hurt by the lower international demand but the launch of unprecedented government fixed asset investments and large-scale stimulus policies led to a significant rebound. The final GDP for 2009 should exceed the 8% target which is necessary to create enough employment without creating risks of unrests.

Increased liquidity has helped boost the real estate and stock markets. Cheaper credit helped consumption. During the year more than 1.1 million cars were sold per month (and it is not the smaller ones which had the biggest success). Chinese car makers have made some foreign acquisitions and could learn a lot on the technology side to improve their domestic brands. China even launched the first Airbus assembled outside of Europe in June. Transfer of technologies will make the country less dependent on others in the future. China cannot be considered only as a manufacturing economy anymore as they become much more diversified.

Consumption is often said not to contribute enough to the Chinese GDP. But consumption is rising a 15% per year. A quick calculation shows that a 15% increase in Chinese retail sales equals 6.5% of growth in US retail sales, not so bad.

The Shanghai A share market had risen sharply until July, as some local investors used available credit facilities to invest on the stock market. Chinese Government has therefore decided to limit credit availability and the A shares dropped dramatically in August (-21.8%). The Shanghai A-Share market has posted a return of 17.9% in USD during the quarter (82. % ytd) while the MSCI China, which tracks stocks available for international investors, gained 9.6% in Q4 (62.3% ytd).

Indonesia is by far the strongest performer of the year despite the modest rise of the MSCI Indonesia of 5.1% in Q4 (+126.2% ytd). Political stability has improved with a strengthening position of President Yudhoyono. The country also benefited from attractive fiscal policies as well as several rate cuts since the beginning of the year.

Domestic and government consumption have been strong during the year. Consumer confidence has reached historical highs and industrial production is now significantly positive. The banking sector, like in Asia globally, is in good health with a low NPL ratio.

After an easing of 300 basis points over the first 9 months of the year, the Central bank has decided to leave its interest rate policy unchanged. The next move may be upwards, probably during the first semester next year. Only a limited proportion of the cuts in the rate policy have been passed onto the lending rates of commercial banks. Consumers are not highly leveraged.

Taiwan benefited from a strong export recovery making the recession in 2009 to be less severe than thought. The domestic economy was also supported by reviving sentiment. Further improvements will be done on the cross-strait relationship with China and the abundant liquidity conditions. IMF expects the GDP contraction to reach 4.1% this year while the economy should grow 3.7% next year.

A modest recovery in the world economy and improving consumer demand in emerging markets will support the technology sector. But at this stage the market is already discounting higher demand and valuations are not a bargain.

The MSCI Taiwan in USD rose 8.1% this quarter, leading to a rise of 79.2% ytd.

South Korea is another exporting economy which is recovering strongly. IMF expects a limited GDP growth at -1.0% in 2009 while 2010 should see growth rising 3.6%. South Korea has gained competitiveness thanks to the currency depreciation last year (many Korean products compete strongly with Japanese ones). Unemployment appears to be stabilizing which is supportive of a domestic demand recovery. Exports are now positive again yoy and industrial activities have ended their decline.

As the Bank of Korea recently widened its inflation range to 2-4% for 2010-12, there should not be brutal rises in interest rates soon.

The MSCI South Korea in USD rose 2.3% this quarter, leading to a rise of 71.3% ytd.

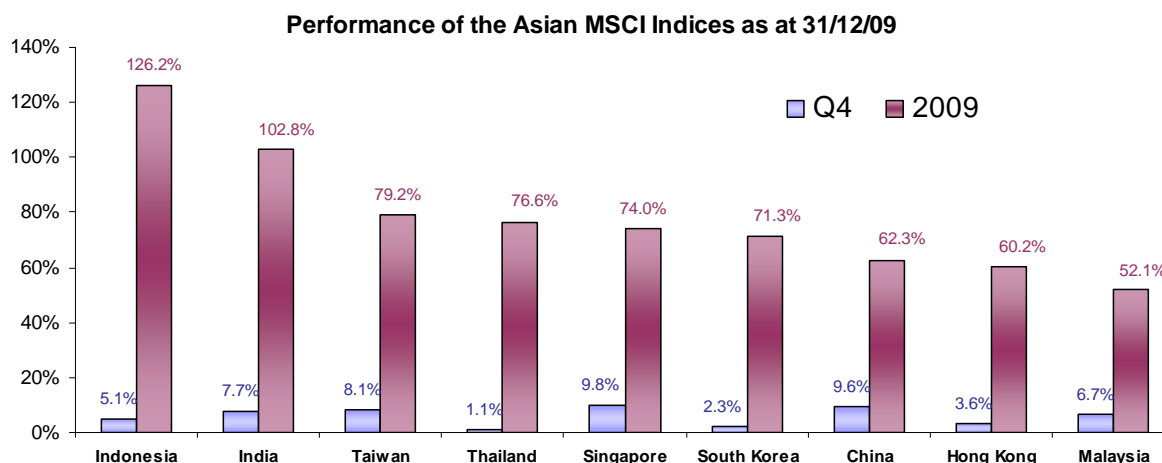
Malaysia : recent macroeconomic data including exports and industrial production are indicating that the economy is starting on its path to recovery. The current account surplus remains high at 14% of GDP while the government faced a budget deficit of 7.1% this year. GDP growth will have declined by 3.6% this year and is expected to recover 2.5% in 2010. The government will go on spending on infrastructure but with an eye on the budget deficit. Economic and financial reforms are difficult to implement but the new Prime Minister Najib has the will to launch them soon.

Malaysia was less under investor’s spotlight during the year. The MSCI Malaysia posted a performance of 6.7% this quarter (52.1% ytd). Some companies should benefit from an improvement in global economic conditions.

Hong Kong and **Singapore** are both developed markets but are included in the MSCI AC Asia ex-Japan. Those two economies are highly geared towards global growth and suffered the most from world slump. But the ground lost this year should be recovered next year following IMF’s expectations. Hong Kong should go on benefiting from domestic demand which is supported by easy monetary conditions and buoyant asset prices. Exports should recover less quickly. On the contrary, Singapore must first rely on a recovery in exports before being sustained by domestic demand.

MSCI Hong Kong posted a rise of 3.6% in Q4 (60.2% ytd) and MSCI Singapore rose 9.8% in Q4 (74.0% ytd).

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



Some currency effect helped the performance in USD. The main appreciating currencies were the Indonesian Rupee (+15.4%), the Korean Won (+7.6%), the Indian Rupee (+4.7%) and the Thailand Baht (+3.9%).

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 30/09/09	Weight as at 31/12/09
<i>Sloane Robinson</i>	39.4%	38.5%
<i>Hamon</i>	22.1%	22.3%
<i>Comgest</i>	19.7%	19.2%
<i>Lloyd George</i>	8.7%	8.7%
<i>Atlantis</i>	8.3%	10.0%

The allocation between managers was mostly unchanged during the quarter except the weighting of Atlantis which rose close to 10% (targeted level).

Some managers have adopted a cautious stance towards the markets, mostly after the strong rise that was registered since the beginning of the year. The level of cash at the end of Q3 was 3.1%, it is now 9.8%. This reflects that there remain some uncertainties for 2010.

Asia Pacific Performance ended the year with an absolute performance of 58.2% which is 13.9% below the benchmark. This is the lowest relative yearly return ever but since the market peaked in October it is still outperforming. While the relative performance was slightly positive at the end of February, March and April proved to be strongly penalizing as APP grew only 21.3% while the benchmark was up 32.9%. The underperformance that reached 8.9% ytd at the end of April could not be regained during the remaining of the year. It was even amplified by the rise of the market of 46.5% since end of April. There is a mathematical effect that has leveraged the underperformance.

Gross Performance	DEC 08 – FEB 09	FEB 09 – APR 09	APR 09- DEC 09	2009	SINCE OCT 07
<i>Sloane Robinson</i>	-7.9%	12.1%	50.9%	55.8%	-9.0%
<i>Atlantis</i>	-11.6%	40.5%	59.1%	97.5%	-32.0%
<i>Comgest</i>	-10.7%	21.3%	34.3%	45.4%	-26.6%
<i>Hamon</i>	-14.4%	42.7%	55.3%	89.8%	-27.3%
<i>Lloyd George</i>	-12.0%	20.6%	41.8%	50.5%	-40.1%
ASIA Pacific Performance	-10.5%	21.3%	45.8%	58.2%	-23.7%
MSCI AC Asia ex-Japan	-11.6%	32.9%	46.5%	72.1%	-26.7%

It took only two months to hurt the performance of the year. Since end of April, Sloane Robinson is outperforming the benchmark again but not enough to recover his underperformance of March and April. Comgest was the major disappointment this year. His concentrated portfolio was hit considerably. This reminds us of the benefits of diversification. Since the market peaked in October 2007, Asia Pacific Performance is still performing better than the benchmark.

Sloane Robinson has heavily used cash as an asset class when he was feeling pessimist on the markets. This worked pretty well until markets soared in March. Before reconsidering his position, he needed to know if the rise was a significant change in investors mind or just a bear market rally (with a limited duration). Improving macro economic conditions would have not meant anything as long as risk aversion remained. Once it became clear that investors wanted to buy good quality companies at bargain prices and that monetary policy would remain accommodative globally, stock markets benefited from abundant liquidities and reallocation towards the markets with the higher growth expectations. The cash level which stood at 62% was reduced to 20% at the end of May. This high defensive stance was compensated by high returns on stocks from Indian and Indonesian markets which posted major rises.

Over the last quarter, Sloane Robinson once again became cautious and started to raise the cash from 0.1% at the end of September to 23.4% at the end of December. Debt refinancing concerns in Dubai, the devaluation of the Vietnamese Dong and Greek CDS are isolated events that should remind us of ongoing macro risks and potential solvency issues. Tightening monetary policies (like the Australian central Bank did 3 times in a row) can be expected soon and this is a reflection of a genuine economic recovery. Sloane considers the risk reward profile of markets appears less favourable than earlier in the fourth quarter. This justifies a more cautious position.

Hamon had already positioned his portfolio in order to take profits from cyclical and property stocks which had dropped to unjustified levels at the end of last year. While pessimism prevailed again in February, Hamon expected Chinese stimulus package to have a significant impact. Strong liquidity flows, better corporate results and economic data changed investor sentiment. Property and commodity holdings soared and contributed to the performance of the portfolio.

The first visit of US President Obama to China in November has highlighted the importance of the US-Sino relationship. The portfolio is more concentrated on China/Hong Kong as strengthening domestic consumption and rebound in exports continue to bode well for the markets. Hamon still expects strong corporate earnings growth and focus on sectors with long-term potential like the green-economy and new energies. Investment opportunities should also arise in domestic-driven sectors such as internet and media advertisement names, on the back of strengthening consumption. Taiwan should also benefit from an increase in capex for IT upgrades linked to the release of Windows 7. India is also overweighted in the portfolio as GDP growth remains strong. Stock selection in India has produced strong results in property stocks and alternative energy.

Comgest was the less optimist manager during the year. In a few months, investors switched from “the end of the world syndrom” to euphoria. Huge investment flows came back to Asian markets and many managers started to buy high cyclical and high beta stocks. Central banks have provided huge liquidities to the stock markets but this does not resolve the world economic troubles. Consumers in developed markets see a rise in unemployment and huge increase in public debt. They will therefore not sustain Asian exports in a near future. Within next 5 to 10 years, major countries like China, India and Indonesia will be able to grow based on the growth of their domestic sector. But the next two to three years may turn out to be more difficult. Comgest wants to focus on high quality stocks with strong management and strong balance sheet in such a context.

With a highly concentrated portfolio, sector bets can be significant. Both stock selection and sector allocation detracted performance during Q4 and throughout the year. Smaller and mid cap stocks performed much better this year which is not the typical focus of Comgest. The 2009 performance of the benchmark was astonishing. While the economic context was particularly difficult in February, managers who had not turned optimistic at that time underperformed. Comgest has not become a bad manager and hopefully they did not just change their investment strategy. Comgest had this year a more contrarian approach to the other managers of Asia Pacific Performance. This was not the right strategy.

Lloyd George : the uplift to 2009 estimates is coming chiefly from better margin expectations, whereas 2010 upgrades have been driven by sales growth. In Asia, demand for all products and commodities is back to normal. The middle class is still growing rapidly and sustains global demand. The government is planning several infrastructure projects in 60 cities, building subways or new airports, high speed rail systems and energy plants. Based on the enormous increase in money supply in major countries over the past 18 months, a resurgence of inflation can be expected by the middle of 2010.

Lloyd George remains optimistic on the outlook for Asian equities in 2010, but performances will be lower than those seen in 2009. The second part of 2010 should be more challenging once the liquidity environment is less supportive. However the growth differential between Asia and the rest of the world will continue to suck capital into the region.

Atlantis is focussing on mid and small caps. After experiencing a very difficult year in 2008 when small caps fell in disgrace, Atlantis has concentrated the portfolio towards a market recovery at the beginning of the year. The manager remained cautious towards stocks which were fully valued defensives. Despite the negative outlook that prevailed at the beginning of the year on Chinese property companies, Atlantis expected a re-rating of those companies trading at depressed levels. And it worked quite well.

During Q4, corporate earnings were at least in line with expectations. The investment approach has turned more defensive over the last months but no correction occurred. Liquidity is still strong in the system and carry trades in USD make it non expensive to buy in the stock market. Furthermore stimulus measures are expected to continue and Fed will keep rates low. The USD carry trade cannot last forever and Central banks may prevent hot money inflows into Asian markets. Corporate spending is expected to increase next year with IT replacement needs. The launch of Windows 7 may provide the impetus to start the necessary replacement of machines.

Market perspective

Asian markets have just posted their highest yearly performance in 2009, one year after experiencing the biggest drop ever. To reach their historical high of October 2007, markets should rise another 34.0%.

Despite the sharp rise of last year, valuations of Asian markets seem fairly priced. Forward Price Earnings for MSCI Asia ex-Japan stands at 13.7 which can be compared with Forward Price Earnings of 14.3 for the MSCI World and 14.4 for the MSCI US. Analysts are expecting that Asian markets will go on benefiting from the improvement of corporate earnings.

Asian governments and Central Banks have reacted very positively during the crisis and there are no reasons to believe they would fail in the coming months. Major challenges will arise sooner or later like the need to increase short term rates to prevent a rise of inflation. Asian Central Banks will probably have to act before the Fed does. The markets can accommodate some interest rate rise unless inflation picks up faster than forecasted.

Credit growth had been very strong last year in China and may become a concern. Ample liquidity helped sustain consumption but real estate prices soared. PBOC is well aware of the problem and may restrict credit growth to prevent new bubbles.

Despite the underperformance of 2009, the multi manager approach has once again proven that a diversified approach is key. It has been quite a long time that relative performances of our managers against the benchmark were so large. Focussing only on one strategy remains a risk and the diversified approach of Asia Pacific Performance allows investors to lower this risk.

Asian markets have proven their strength and their importance in the world economy. Investors can not afford to forget them in their portfolio allocations.

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

Frederic ADAM
Degroof Gestion Institutionnelle-Luxembourg

ANNEX I

- Geographical breakdown by manager as at 31st December 09

	Sloane	Lloyd	Hamon	Comgest	Atlantis	APP	Bench
China	5.7%	31.7%	31.9%	12.8%	12.3%	15.8%	26.4%
Hong Kong	2.7%	10.4%	14.9%	18.4%	26.5%	11.4%	10.8%
India	24.1%	11.0%	14.6%	5.9%	3.9%	15.0%	11.0%
Indonesia	9.7%	4.0%	4.0%	5.7%	4.5%	6.5%	2.8%
Korea	5.3%	17.7%	13.9%	11.1%	17.4%	10.6%	18.8%
Malaysia	0.0%	1.3%	0.0%	7.8%	1.6%	1.8%	3.9%
Philippines	1.8%	0.0%	0.0%	2.8%	2.0%	1.4%	0.6%
Singapore	9.4%	5.8%	4.4%	10.9%	12.9%	8.5%	6.9%
Taiwan	10.7%	16.5%	16.1%	16.3%	14.2%	13.7%	16.8%
Thailand	7.0%	1.1%	0.0%	3.3%	3.1%	3.7%	2.0%
Others	1.4%	0.0%	0.0%	0.8%	0.0%	1.8%	0.0%
Cash	22.2%	0.5%	0.2%	4.2%	1.7%	9.8%	0.0%

Internal data as at 31/12/09

- Sectorial breakdown as at 31st December 09

GICS	Sloane	Lloyd	Hamon	Comgest	Atlantis	APP	Bench
Materials	1.7%	7.0%	5.7%	0.0%	8.3%	3.4%	8.1%
Cash	22.2%	0.5%	0.2%	4.2%	1.7%	9.8%	0.0%
Consumer Discretionary	4.7%	13.1%	15.8%	11.7%	5.5%	9.3%	7.2%
Consumer Staples	9.8%	1.4%	7.7%	6.4%	3.2%	7.1%	4.4%
Financials	20.3%	30.1%	24.9%	22.2%	28.5%	23.1%	31.7%
Health Care	5.1%	1.7%	1.8%	2.4%	0.0%	3.0%	0.5%
Industrials	11.1%	7.8%	12.8%	15.3%	38.1%	14.5%	10.0%
Energy	5.9%	7.5%	4.7%	0.0%	0.0%	4.0%	8.3%
Information Technology	14.9%	26.0%	23.4%	17.5%	11.8%	17.7%	19.2%
Telecom	0.0%	3.0%	0.0%	17.2%	1.3%	3.7%	6.6%
Utilities	4.4%	2.0%	3.1%	3.3%	1.6%	3.3%	4.0%
Others	0.0%	0.0%	0.0%	0.0%	0.0%	1.2%	0.0%

Internal data as at 31/12/09

- Overlap : 36 stocks (264 stocks in the portfolio)
- Top 10 concentration APP : 14.1% vs Benchmark 19.5% (3 stocks in common in both Top 10 holdings)

- Other statistics :

Risk Measures	APP	MSCI Asia ex-Jpn
Percentage of gaining periods	59.3%	54.1%
Percentage of losing periods	40.1%	45.9%

Tracking Measures			
Beta	0.78	R-Square	0.80
Alpha	0.50%	Alpha P-value	4%
Tracking Error	12.35%	Information Ratio	0.45
Bull Beta	0.72	Up Participation	95.7%
Bear Beta	0.75	Down Participation	82.3%

Monthly Value at Risk	APP	MSCI Asia ex-Jpn
At 95%	13.5%	15.6%
At 99%	17.8%	20.5%

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