

ASIA PACIFIC PERFORMANCE SICAV

QUARTERLY REPORTING

June 2010

Introduction

Asian markets posted a negative performance during the quarter with a loss of 4.9% for the MSCI AC Asia ex-Japan (the benchmark) as uncertainties linked to the economic environment prevailed once again over the period. This brings the year-to-date performance to -3.7%.

Concerns over Europe's sovereign debt issues were still the main topic. But fears of a Greek default grew significantly and investors started to get concerned about the viability of the government bond markets of other countries like Spain, Italy and Portugal. Consequently the Euro currency lost 14.5% against the USD since the beginning of the year. The flight to quality has become a flight to German bonds only and this pushed German yields to the floor.

Markets also remain nervous and highly sensitive to the publication of macroeconomic data in the US or Europe. Stock market volatility increased sharply all around the world but the benchmark of Asia Pacific Performance (APP) did far better than the MSCI World with relative performances year-to-date of -3.7% and -9.8%.

Current market conditions are very tough and challenging for managers as markets can quickly react to any specific news. In this context Asia Pacific Performance recorded a negative performance of -7.5% in USD during the quarter, bringing the year-to-date performance to -7.9%. The main event in Q2 was the termination of the mandate with Lloyd George who was replaced by ARN Investment.

The assets under management of APP decreased by USD 93.7 millions to USD 588.2 millions at the end of June. The number of units into the funds decreased by 2.8% while the total assets managed lost 13.9% (mostly explained by the lower stock market).

The Asian Economies

Macro review

GDP figures for main Asian countries have posted high rebounds but there is clearly a base effect playing. Economic growth of 8.1% for South Korea and 13.3% for Taiwan can be explained by a strong rebound of industrial production and higher exports. Both were particularly depressed one year ago.

The austerity program requested by Germans is a threat for Asian economies as it should decrease consumption in Europe which is still a huge market for Asian exporters. Keynesian policies commended by the United States will increase the (already high) level of debt and constitutes a threat for the long term.

China even tried to support Greece by providing them investments in order to help them solve their problem and decrease speculation on bond markets. The Chinese are planning to invest money there, including the transformation of the Mediterranean port of Piraeus. This will allow Chinese factories to get an easier access to consumers across Europe and North Africa.

Countries and stock market performances

Indonesia was again the strongest performer since the beginning of the year with a rise of the MSCI Indonesia of 14.7% in USD. This good performance can be explained by the upgrade in sovereign bonds (2 notches below investment grade), improving political outlook and lower than expected inflation.

Other good news includes further growth in foreign reserves, improving consumption and fiscal balance. Political improvements are also very significant with a recent consensus between the three major political parties. This means chances of employment and land-use reforms being passed increase significantly. Infrastructure projects are likely to see a boost later this year and in 2012.

Thailand stock markets posted strong gains with a year-to-date rise of 11.1% (7.9% in Local currency) despite the Red-shirts fighting against the authorities to request new elections in the country. April and May were two difficult months for the government which was forced into difficult riot-control action. Protests are over now but many grievances remain unaddressed.

The Thai economy benefited from a rebound in exports, inventory restocking and investment growth. Economic growth in 2010 is expected to reach 5.5% with stable inflation. Consumption remains resilient and despite the Red-shirts crisis, auto sales were up 53% year-on-year in the country.

Compared to other stock markets, Thailand remains inexpensive and attracts investors again. The main risks remaining are the health of Thailand's monarch and any negative surprise once it will be decided to have elections.

Malaysia : the MSCI Malaysia posted a flat performance over the quarter but still has a strong performance ytd with a rise of 9.3%.

Private consumption and government spending were both higher than anticipated. Export and import growth is still strong while inflation is under control. Economic growth in 2010 should reach 6%. Despite its budget deficit of 5%, Malaysia has very strong fundamentals with low external debt and large international reserves.

India : the performance of the Indian stock markets decreased by 0.8% in Q2 but still remains positive ytd with a rise of 2.5% in USD. Local demand led growth and increasing faith in the government's fiscal policy both make investors more optimists.

The government has finally taken the context of higher inflation to increase natural gas prices closer to international prices. Price controls on gasoline and diesel were also removed in June while LPG and kerosene prices were significantly increased. This move is very positive as it will allow the government to reduce the fiscal deficit and/or spend this money to other needed infrastructure developments. The government also completed auctions of 3G and wireless broadband licences during the quarter. Winning bids exceeded estimates.

The Indian Central bank remains worried by the high level of inflation. The monsoon will be critical to lower food prices.

South Korea : the Korean won depreciated by 8% during the quarter as risk appetite waned. Rising tensions with North Korea made some investors nervous but the escalation between the two neighbours decreased afterwards.

Exports are still showing amazing growth (thanks to semiconductors, automobiles and petrochemicals) in the country allowing Korea to post higher trade surplus and to increase its foreign exchange reserves. South Korea and the US agreed to reach a new free trade agreement before the next G20 meeting in Seoul later this year.

China : Chinese stock market remained depressed. The MSCI China posts a -6.1% performance since December 2009.

Several key economic indicators reached an inflection point and are pointing to a more cautious H210 than earlier expected. Beijing announced currency reforms to allow greater flexibility to the Renminbi. This was good news for Asian markets as a whole. The revaluation will create long-term benefits for Chinese equities.

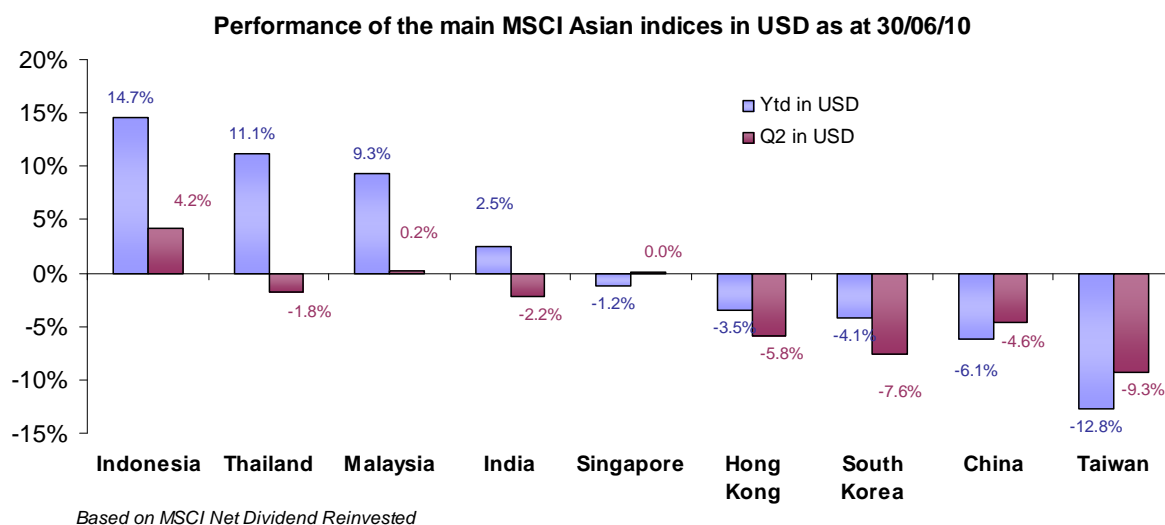
Strikes and protests at international companies based in China led to sharp wage increases. This wage inflation could start to erode China's low cost manufacturing base position. Since February, eleven provinces have increased the minimum wage level and more provinces are expected to follow soon. So far, companies like Toyota, TPV and Hon Hai have announced 30-40% wage hikes at their China plants.

Any GDP growth figures decreasing towards 8-10% would be welcomed by investors as this would mean China does not have to tighten its monetary policy again.

Taiwan was the main loser ytd with a performance of -12.8%. The Central bank decided to raise interest rates earlier than expected (+12.5 bps). The government also had to pass measures to curb speculation in luxury residential markets. The main topics during Q2 will remain the Economic Cooperation Framework Agreement with China which should open market opportunities between the former political adversaries.

The slowdown in Europe and rising labour costs in China both created negative sentiment for Taiwanese manufacturers operating on the mainland, like downstream tech companies.

The performance of the different markets in Q2 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 31/03/10	Weight as at 30/06/10
<i>Sloane Robinson</i>	38.5%	37.5%	36.0%
<i>Hamon</i>	22.3%	21.9%	23.2%
<i>Comgest</i>	19.2%	19.6%	19.0%
<i>Lloyd George / ARN *</i>	8.7%	7.8%	8.5%
<i>Atlantis</i>	10.0%	10.4%	11.0%
<i>Farm Team</i>	1.1%	2.0%	2.2%

*ARN replaced Lloyd George on June 1st 2010

The weight of Sloane Robinson has decreased over the quarter to 36.0% in order to prevent an excessive concentration. We increased the weight of Hamon and kept Comgest below the 20% limit. Atlantis has done a good job and the 10% targeted weight will be increased in order not to penalize this manager when performing well.

ARN has taken over Lloyd George's portfolio on June 1st and is currently working on restructuring this portfolio according to his investment style. This should take another month at least but the changes already done lead to a significant reduction of the overlap with the other investment strategies put in place. The weight of ARN will not increase immediately as we want the manager (Christopher Wong) to manage the portfolio with stable assets.

Asia Pacific Performance ended the quarter with an absolute performance of -7.5% which is 2.6% below the benchmark. The volatility on the markets made it very difficult to beat the benchmark. Hamon was badly hurt by its stronger exposure on Chinese stocks and lost a lot of ground vs. the other managers.

Performance	Q2 2010	Ytd
<i>Sloane Robinson</i>	-3.2%	-2.7%
<i>Atlantis</i>	-7.5%	-4.6%
<i>Comgest</i>	-5.7%	-4.3%
<i>Hamon</i>	-12.2%	-15.7%
<i>Lloyd George / ARN 1st June</i>	-7.0%	-8.5%
ASIA Pacific Performance	-7.5%	-7.9%
MSCI AC Asia ex-Japan	-4.9%	-3.7%

Sloane Robinson is still bearish on the market and went on increasing his total cash to 44%. The manager wonders if we enter a new bear phase in the developed world or if it is the continuation of the bear market period that began in 2008 (that was interrupted by the global transfer of debt from the private to the public sector). The main differences between today's market and that at the end of 2007 are the lower amount of money being put at work in financial markets (as banks are unwilling to extend credit) and valuations are not as high as in 2008. Sloane Robinson is not bearish on Asia but prefers to remain cautiously positioned during a period of cyclical tightening. The austerity in the developed world and tighter monetary policy in emerging markets is not supportive of earnings. Sloane will remain on the sideline until greater clarity on these issues emerges.

Hamon was heavily penalized as risk appetite dampened in June over global uncertainty in the EU and US. Hamon increased his exposure towards shipping sectors as it now appears feasible that the industry is capable of absorbing tariff increases. The drop of the Chinese markets is the main explanation of the underperformance of Hamon. China and Hong Kong are two main overweight in the portfolio, as showed in the annex. The portfolio is currently a high beta play on the market.

Comgest sticks to its very cautious strategy. The manager still thinks too much liquidity has been created in the financial system. This will create inflation. It will then be more difficult to tackle the problem if interest rates have to rise later on. Chinese currency is linked to the USD, this is potentially inflationary. Moreover, the Financial system in China is not as good as the market believes and a new financial crisis cannot be ruled out.

The mandate with *Lloyd George* has been put to an end on the 1st of June after 15 years of collaboration. Lloyd George was replaced by **ARN Investment Partners** who has a different investment strategy. ARN is not benchmark-driven and will produce a portfolio of strong convictions. ARN has taken over Lloyd George's portfolio and already implemented some significant changes. The process is not over and should go on for a few weeks. We are strongly convinced that ARN will provide a greater diversification and return to Asia Pacific Performance.

Atlantis notices the economic environment remains difficult. There are some worries of contagion coming from the Eurozone linked to interbank liquidity. Political tensions between North and South Korea were also considered dangerous for the markets in May. Stock market valuations after the correction provide decent support. The strongest earnings growth should come from cyclical sectors such as materials and industrials as is the norm for the early stages of a recovery.

Market perspective

Asian markets have resisted quite well since the beginning of the year. Even if investors are not very optimistic on stock markets right now, they do not want to stay away from emerging markets, and Asian markets in particular.

Since the start of the year, markets proved to be difficult. Hopefully many Asian companies are still able to produce higher earnings growth. Once economic data improves or risk aversion decreases, markets can soar very rapidly as they did in March 2009. The downside risk seems limited. The risk is mostly not to be invested.

China has done pretty badly since the beginning of the year. New IPO's in Q2 have withdrawn liquidity on the Chinese A-share market. If such kind of IPO's can be easily absorbed by the market, there should be less worries.

Despite the underperformance of Asia Pacific Performance, the multi manager approach still provides a great diversification. Given the current different views of the manager, it makes a lot of sense to split the assets between several strategies. If one does not work the right way, the others will probably help.

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

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 30st June 2010

	Sloane	ARN	Hamon	Comgest	Atlantis	APP	Bench
China	4.3%	27.4%	35.3%	5.2%	12.1%	14.4%	25.4%
Hong Kong	3.5%	15.6%	6.2%	30.6%	26.0%	12.7%	10.4%
India	10.6%	7.0%	16.9%	6.4%	3.5%	9.9%	11.5%
Indonesia	12.4%	3.0%	7.0%	5.3%	4.9%	7.9%	3.1%
Korea	6.0%	12.0%	14.3%	12.1%	17.4%	10.7%	19.7%
Malaysia	0.0%	1.0%	0.0%	5.7%	0.2%	1.2%	4.3%
Philippines	1.5%	0.0%	0.0%	0.9%	0.0%	0.7%	0.6%
Singapore	5.2%	12.0%	2.1%	7.6%	15.0%	6.5%	6.9%
Taiwan	3.5%	15.0%	13.3%	20.0%	15.1%	11.3%	16.0%
Thailand	8.0%	1.0%	2.1%	0.0%	3.4%	3.8%	2.1%
Others	0.9%	2.0%	1.6%	0.9%	0.0%	3.3%	0.0%
Cash	44.1%	4.0%	1.2%	5.3%	2.3%	17.5%	0.0%

Internal data as at 30/06/10

Sectorial breakdown as at 30st June 2010

GICS	Sloane	ARN	Hamon	Comgest	Atlantis	APP	Bench
Materials	2.1%	12.7%	6.7%	0.0%	9.5%	4.4%	7.5%
Cash	44.1%	3.6%	0.9%	5.5%	2.4%	17.5%	0.0%
Consumer Discretionary	7.2%	1.9%	17.0%	11.7%	7.6%	9.8%	7.9%
Consumer Staples	3.2%	3.6%	5.3%	10.6%	4.0%	5.2%	5.0%
Financials	13.7%	29.8%	24.9%	17.3%	11.9%	17.9%	31.5%
Health Care	2.8%	1.6%	0.0%	2.8%	0.0%	1.7%	0.8%
Industrials	12.3%	10.9%	10.0%	9.4%	41.9%	14.2%	10.0%
Energy	3.8%	12.0%	6.3%	0.0%	1.6%	4.0%	8.1%
Information Technology	5.6%	21.7%	25.4%	20.4%	16.2%	15.5%	18.2%
Telecom	0.0%	0.8%	0.0%	18.9%	0.0%	3.7%	6.9%
Utilities	4.9%	1.5%	3.4%	3.4%	4.8%	3.9%	4.0%
Others	0.0%	0.0%	0.0%	0.0%	0.0%	2.3%	0.0%

Internal data as at 30/06/10

- Overlap : 20 stocks (234 stocks in the portfolio)
- Top 10 concentration APP : 13.2% vs Benchmark 18.8% (2 stocks in common in both Top 10 holdings)
- Other statistics :

Risk Measures	APP	MSCI Asia ex-Jpn
Percentage of gaining periods	59.0%	54.5%
Percentage of losing periods	40.4%	45.5%

Tracking Measures			
Beta	0.78	R-Square	0.80
Alpha	0.46%	Alpha P-value	5%
Tracking Error	12.17%	Information Ratio	0.41
Bull Beta	0.73	Up Participation	94.8%
Bear Beta	0.75	Down Participation	82.7%

Monthly Value at Risk	APP	MSCI Asia ex-Jpn
At 95%	13.4%	15.4%
At 99%	17.6%	20.3%

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