ADM CAPITAL

ADM Capital – A Record 2016, and Promising 2017

ADM Capital celebrated its' 20th anniversary last year, and is one of few boutique credit fund managers with such a depth of experience investing in the Asia Pacific region. Our commitment to finding value in complex situations, our long-standing relationships, structuring know-how, as well as our ability to leverage experience across jurisdictions, economic cycles and transactions are key in delivering consistently attractive, risk-adjusted returns to our investors. Our actively investing Asian funds generated net returns of 10-12% in 2016, whilst the ADM Galleus Fund I, the firm's oldest investment vehicle with a 1999 vintage, won "Best Fixed Income, Distressed and High Yield Strategy" at the October 2016 AsiaHedge Awards.

In 2015 we worked hard to diversify our book of business and accelerate the pace of our investments. Simultaneously, we set up a "gross to net returns" initiative that involved substantial efforts to reduce our overheads and improve the gross to net IRRs in our funds. The third prong of our strategy was to put in efforts to exit or restructure some of our very few perniciously difficult investments. Our efforts to strengthen the foundations of our business bore fruit in 2016, as we exited 8 deals amounting to USD132m, improved the gross to net ratio to 3-4%, and overall, achieved net returns in the low teens in most of our actively investing portfolios. Our pipeline remained robust at around USD1bn throughout the year, with deals from more than 15 countries and numerous sectors. In the relationship driven and culturally complex domain of Asia, the strong relationships we have worked hard to forge over the years and our reputation as a 'friendly lender' have been very rewarding in generating strong deal flow. Indeed, ADM Capital formally reviews in excess of 250 investment opportunities per year, allowing us to be discerning in the deployment of capital, and building high quality portfolios.

For 2017, we anticipate that this performance will be sustained and will even improve. We also expect that the secular growth of Asian private credit will grow unabated, irrespective of various macro influences in the region. As such, we anticipate an explosion of interest in Asian credit from investors outside our region, that will be reflected in a multiplicity of funds, expansion in AUM and a few new product structures to suit different investors' requirements. Simultaneously it is likely that we will see the germination of interest among Asian investors for Asian private credit, though it is yet early days to accurately predict its growth. As interest in the asset class accelerates, we have systematically enhanced our operations in preparation for the next phase of growth anticipated across frontier, emerging and developed Asia, and are well equipped to benefit from the opportunities offered in this dynamic region.

Looking back…

In 2016, in addition to our core markets of South East Asia and China, we accelerated the pace of investments in established markets like Australia, New Zealand and Singapore, simultaneously exploring the various opportunities now apparent in more frontier markets such as Vietnam and Myanmar. Overall, in Asia, for the twelve months ended December 2016, we committed over USD168m of capital in 10 deals, another record year for the Asia team. This enabled us to achieve reasonable diversity in geography (our largest country exposure is under 23% in the Philippines) and sector (we have ~36% invested in Food Products – a sector influenced by local rather than global industry dynamics and relatively more stable demand). As such, in a period that has been characterised by significant market volatility, we have achieved stable and consistent gross investment returns of around 15% per annum (in USD) for the last 5 years, and 13% specifically in 2016 on our private investments in Asia, compared to the fairly volatile returns offered by emerging markets in general (for instance, the global USD HY EM Corporate Bond Index as per Bloomberg returned between 21.84% and -2.36%per annum over the last 5 years). Such returns are even more attractive considering our positions generally enjoy at least 1.5x collateral cover.

ASIA DEBT MANAGEMENT HONG KONG LIMITED
1008 ICBC Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong
Tel: (852) 2536 4567 Fax: (852) 2147 2813 Homepage: http://www.admcap.com Email: info@admcap.com

Regulated by the Securities and Futures Commission in Hong Kong

There were no major team changes except for the hiring of a seasoned investment professional, Sze-Liang Lim, who leads investment efforts in Indonesia, Malaysia and Singapore. Sze-Liang has 19 years of relevant experience in Asian private credit, gained across stints in Nomura, CarVal Investors, Clearwater Capital Partners and Goldman Sachs.

… looking ahead

We expect that our ongoing efforts in expanding our investment horizons, accelerating the pace of our investments, and consistently capitalising on new product opportunities will set the foundation for renewed growth in 2017 both from existing and new customers. Considering new funds, in May 2016, we signed an agreement with two of our cornerstone investors in our Asia Secured Lending Facility to establish a successor fund, the Somei Lending Platform, which will invest in Asian emerging market private secured credit investments, following robust environmental, social and governance principles as defined by the International Finance Corporation (IFC). Marketing for this fund is on-going – we expect to close the books in the second half of the year. We have already received USD100m in commitments from existing clients.

Simultaneously, we are beginning to see a decided change in the pipeline of active investments, largely reflecting the needs of the markets we serve. For example, we observe more service oriented industries (medical facilities, finance companies, old age homes) requiring funding, as also cross border financing (eg. M&A, share acquisition financing) where we have an edge over traditional finance channels, and are also protected from forex volatility by natural hedges in the business. Also, financing structures are changing – for example, company promoters and shareholders are now willing to share more equity upside, while tenors are 3-4 years. We are encouraged by these trends in that it will likely allow for more diversity in the portfolios, and potentially higher returns. Simultaneously we will continue our work on improving the operating efficiency and administrative costs of our business.

In conclusion, big thanks are due to all the organisations that have supported us through the year. We are indebted to you for your ideas, and your constant challenge of the status quo, helping us to change for the better while successfully placing a firm foot forward to face 2017. May the Year of the Fire Rooster be productive, constructive and value accretive to all our investors.

Best wishes,

Sabita Prakash

Head of Investor Relations
admir@admcap.com