HEYÓKHA BROTHERS

Source: National Geographic

Maxed Out on Everest – A Crowded Everest May Spell Danger

"Just because you love the mountains doesn't mean the mountains love you"

- **Lou Whittaker,** a mountaineer with a record of 250 summits climbing Mt Rainier -

"Mountains are not conquered: they simply do or do not allow us to climb them"

- **Ed Viesturs**, the only American to have climbed all fourteen of the world's 8,000-meter mountain peaks -

1Q 2015

What We Learned This Quarter

Lessons from the Himalayas

The devastating earthquake that hit Nepal on April 25 has killed thousands and left half a million more homeless.

On behalf of the Heyokha family, we offer our deepest condolences to the families and friends of the lost souls in Nepal earthquake disaster. Our thoughts and prayers are with them during this difficult time.

Events like this have a profound impact on us and make us reflect on what we can learn from this and apply the lessons to our philosophies going forward.

The Nepal earthquake also set off avalanches that left over a dozen climbers dead, many more injured or trapped on Mount Everest. This unfortunate event is a reminder of the unpredictable dangers of high-altitude mountaineering.

Mountains are not conquered, they simply do or do not allow Ed Viesturs to climb them

Source: Internet

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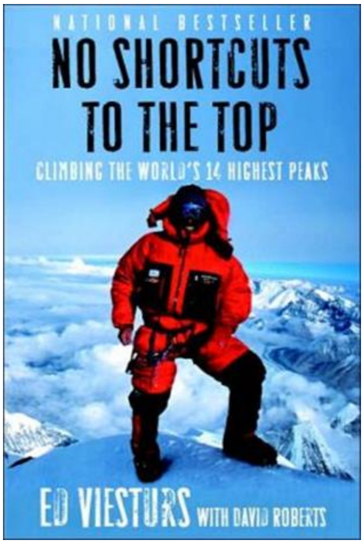
Ed Viesturs' book:
No Shortcuts to The Top



Source: internet

Breath-taking moment during Mt. Everest climbing of Ed Viesturs

Source: internet

On the subject high altitude mountaineering and its associated risks, one of our favorite independent research publications recently inspired us to read *No Shortcuts to the Top,* an amazing story about the life of legendary American mountaineer Ed Viesturs. Ed is the only American to have climbed all fourteen of the world's 8,000-meter mountain peaks.

Overall, Ed has summited peaks of over 8,000 meters 21 times. Not only that, Ed is also known for his helping hand, assistance to other mountaineers who have gone into life threatening situation.

Ed talks about how the urge to climb 8,000-meter mountain is not a death wish. He believes that most accidents on the high peaks are due to human error. Such as the simple decision on when to depart for an expedition, or to bet against the bad weather.

What's particularly interesting is that climbers often get into trouble on the way down. Too many climbers put all they've got into getting to the top, leaving no reserves to get down.

That's why for Ed Viesturs, everything in his planning is calculated towards getting back down. One can't arrive on a summit and then make a plan for getting down. By then it may be too late. Ed's formula is simple but cardinal. ***Getting to the top is optional, getting down is mandatory***.

Ambition and desire overpowering common sense have killed many Himalayan climbers. Ed sends a strong message out there: one can climb Everest and live to talk about it. He wanted people to learn that they can walk away from Everest without frostbite.

As detailed in Ed's book, spring 1996 was a deadly spring season. There are many valuable lessons that we could learn from it. That year Everest would take the lives of twelve of its aspirants, including Ed's best friend and previously climbing partner Rob Hall from the New Zealand climbing team.

After Rob Hall's successful Everest expedition in 1994, he had advertised a "100% success rate" for his clients on summiting Everest (interestingly another victim in 1996 was mountaineer Scott Fischer from the US team who was known to joke about how easy the Everest South Col route was).

Rob's passion to get his client Doug Hansen to the summit, sadly, has clouded his usually impeccable judgment.

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Source: National Geographic

Doug Hansen, the postal worker from Renton, Washington, USA, worked a double job and used his hard-earned money to realize his Everest dream. In 1995, Doug has pushed himself very close to the limit. Rob's disappointment for not getting Doug to the top has been as keen as Doug's.

The following year, in 1996, Rob had offered Doug a big discount on the client fee if he came back for another Everest trip. Moreover, Rob guaranteed Doug the summit on his second try.

On May 10, 1996, Rob reached the summit of Mt. Everest well after three PM, where he waited for Doug, who was giving it all he had – too much of it, in the face of the worsening weather. As Doug came into sight, Rob descended to him, then helped him the last bit of the way to the top.

The thing is that it wasn't until four PM that the exhausted Doug Hansen topped out. That was at least two hours beyond the turn-around time Rob had otherwise so firmly insisted on.

In the 1996 deadly spring, Rob had broadcast to base camp from the summit to report his and Doug's success in summiting Everest. Then, only half an hour later, he had come on the radio again to say that they were both in trouble and needed oxygen. Both Rob and Doug never made it back down.

Source: Facebook

Rob Hall and his wife Jan Arnold's farewell exchange over the radio has become part of the Everest legend.

Rob: *"Hi, my sweetheart. I hope you're tucked in a nice warm bed. How are you doing?"*

Jan: *"I can't tell you how much I'm thinking about you. You sound so much better than expected…Are you warm, my darling?"*

Rob: *"I'm reasonably comfortable."*

Jan: *"How are your feet?"*

Rob: *"I haven't taken my boots off to check, but I think I may have a bit of frostbite."*

Jan: *"I'm looking forward to making you completely better when you come home. I just know that you're going to be rescued. Don't feel that you're alone. I'm sending all my positive energy your way."*

Rob closed with *"I love you. Sleep well, my sweetheart. Please don't worry too much."*

Those were the last words Rob ever spoke – or if he said anything more, there was no one there to hear it.

HEYÓKHA BROTHERS

Lessons to Learn From the Mountain

Investing may not be as dramatic as high altitude climbing, yet there is a strikingly similar paralel we can draw to in investing.

Well, just days before the disaster, Ed Viesturs ran into Rob's team. Whilst Ed has decided that they'd go back down and wait for the unsettled weather to clear, Rob's team (and other climbers, eight of them in total) continued to head up.

Ed admitted that he started to question himself. Whether he was missing his one good shot for the top. The summit fever hit him too. "If so-and-so's going today, I probably should be going too." Fortunately, Ed beat the summit fever as his judgment prevailed.

One important lesson to learn is that you've got to make your own decisions. We couldn't help but to think that the lesson to survive in high altitude mountain is indeed very applicable in investing. Ed's philosophy that "***getting to the top is optional, getting down is mandatory***" provides valuable lesson to investors. **To sit tight, be patient, and wait for the right opportunities**. **Ed beat the odds because he managed risk, rather than taking risk**.

The life journey of Ed Viesturs has certainly inspired us. While we won't even dream of attempting to summit any serious mountain, we feel we can benefit from the underlying principles of Ed's hard earned success.

So what did we learn here?

- It's critical to **make your own decisions and not** be **swayed by the crowd**.
- When climbing, Ed **listens to the mountain**. All the information is there, which helps him decide what to do. **Arrogance and hubris need to be put aside**, and **humility** and **thoughtfulness** are essential.
- If it **feels wrong, it is wrong.** Our instincts have evolved over millions of years. The **flight-or-fight instinct** is a perfect example that kept our ancestors alive.
- Among **Ed's (31) expeditions**, he **has reached the summits of 8,000ers (21 times)**. But **that means that he had to – or decided it was safer to – turn back ten times**. And **four of those ten turnarounds** came when **he was within 350 vertical feet of the top**. He's also proud of the fact that **he never turned around because of lack of preparation, strength, or desire**. **It was always the external conditions that caused him to pause and retreat**.
- Ed **wasn't playing the odds – he was beating the odds**. He believes that most **accidents** and **deaths on the high peeks are** due to **human error.**
- **Even if you get away with making mistakes (it happens very often), it's crucial to learn from them**. Ed has seen too many climbers who seem instead to have the **blind conviction** that **"it won't happen to me"**.
- By **being faster and stronger**, Ed can **expose himself for a much shorter time to the true objective hazards**, where chance comes into play. He will also have **more endurance** left.
- One needs to be **wary at all times** and **never let down guard or become complacent**, no matter how experienced or how famous one is. Don't assume some kind of Teflon coating that keeps one alive.
- The **odds do not accumulate after each climb,** as they do for a set of successive pulls of a trigger. **Climbing** is **not similar to Russian roulette**. **If one learns something from his previous climb** and become a **better mountaineer**, then the **next climb will be safer**. With Russian roulette, one learns absolutely nothing from surviving the previous click of the empty chamber.
- One can **live a life so sheltered** that when he or she is **old and gray**, **all he or she can claim is to have lived long enough** to become old. For Ed, that's **not the way**. Talking about doing something that one is really believing in, rather then just staying in the comfort zone.

On the subject of doing something that one is very passionate about, Ed Viesturs shared that climbers who simply love being in beautiful places and relish the joy of climbing for its own sake win the Sherpa's approbation; those who just want to get it over with and go home boasting of reaching the top, don't.

The Sherpas have taught Ed Viesturs to tread lightly and gently while climbing these magnificent peaks. To climb with humility and respect. And that mountains are not conquered: they simply do or do not allow us to climb them.

Independent thinking is the very center of the Heyokha spirit. One thing our sell side career has taught is not to be afraid to go against the crowd and also to be able to identify thematic early (before brokers publish their big reports).

Lessons from the Himalayas # 1: Not Afraid to be Afraid

Back in third quarter 2014, we at Heyokha wrote that we were ***not afraid to be afraid*** (happens to be the title of our third quarter 2014 report).

HEYÓKHA BROTHERS

What We Learned This Quarter

Not Afraid to be Afraid

"We are also prone to be afraid of being afraid, and the conquering of fear produces exhilaration… When we have been afraid that we may panic in an air-raid, and, when it has happened, we have exhibited to others nothing but a calm exterior and we are now safe, the contrast between the previous apprehension and the present relief and feeling of security promotes a self confidence that is the very father and mother of courage"
- Canadian psychiatrist J.T. MacCurdy, in explaining why the panic in London never came when in the fall of 1940, the long-anticipated German Blitz in the WW2 finally happened.

The bombing of London was everything the British government officials had feared. German bombers thundered across the skies, dropping tens of thousands of high-explosive bombs. Forty thousand people were killed and another forty-six thousand were injured. A million buildings were damaged or destroyed.

However, contrary to expectations, the psychiatric hospitals built on the outskirts of London saw no one showing up. As the Blitz continued, the Londoners showed not just the courage in the face of bombing but something closer to indifference.

MacCurdy had a theory that when a bomb falls, it divides the affected population into three groups. The first group is the people who got killed. The next group is the near misses. This group felt the blast and saw the destruction. They survived but were deeply shocked. The third group is the remote misses.

Source: AP Photo
This smiling girl, dirtied but not injured, courage during 1940 London Blitz

After expriencing a remote miss for a second or a third time, the emotion associated with the attack is an "*excitement with a flavor of invulnerability*". A near miss leads to trauma, a remote miss leads to the feeling that one is invincible.

We thought back then that valuation for certain sectors such as Indonesian construction was unjustifiably high , thanks to election euphoria. In the private equity space, we also witnessed a very competitive environment. Over the past decade or so, the private equity industry in Indonesia has evolved much and pushed up valuation.

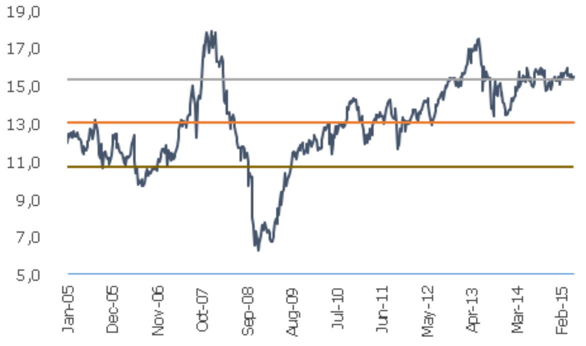
However, we also learned that sitting tight is easier said than done. It is a big challenge to do less in Indonesia (a market that we think we know very well, familiarity bias) and to develop "analytical worry".

In fact, we had to keep on reminding ourselves that our job is also to worry and refraining ourselves from jumping into the market that is so enthused by election euphoria.

Naturally, at one point we too started to question ourselves. Asking if we were missing something. Like the mountaineers, the summit fever hit us too. If everyone was staying uber bullish, we should probably be too?

EXCESS – VALUATION NOT CHEAP with the backdrop of fast deteriorating macro weakness in Indonesia, akin to bad weather in the mountain but everyone still wants to summit.

Jakarta Composite Index PE Band since 2005



Source: Bloomberg,, Heyokha

Indonesia Construction Sector PE Band since 2010

Source: Bloomberg, Heyokha

That's why the lessons from the life of Ed Vieusturs is a good reminder to **make our own decisions and not** be **swayed by the crowd**.

This is also expressed by Warren Buffet. He stresses the importance of sitting tight, despite of what others are doing. Certainly sitting tight is seldom recommended by the brokerage and investment banking industry. In the witty way, Buffet wrote in his latest letter to shareholders (Berkshire Golden Anniversary, past 50 years and the next 50):

"Don't ask the barber whether you need a haircut "

Lessons from the Himalayas #2 : Don't underestimate bad weather

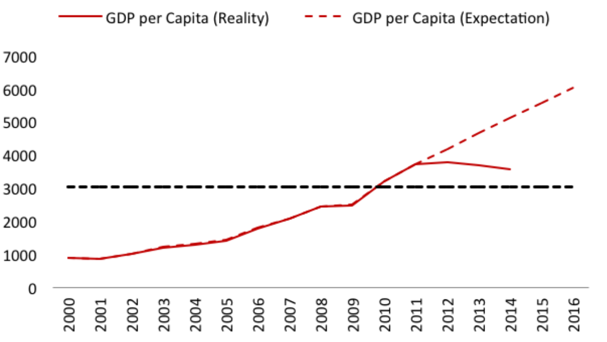
We thought back then (and we still think) that not afraid to be afraid is the right move. We at Heyokha believe that the weather, i.e. the macro backdrop in Indonesia has deteriorated markedly (post commodity boom) and is not going to improve as fast as what the market implied. Getting to the top is optional and we chose not to take the option by conserving cash and reducing Indonesia exposure.

Our daily observations, from weak sales of almost everything to business folks in Jakarta suddenly getting more spiritual, leave no room for doubt that the macro weakness is obvious (for more charts on macro weakness, please see appendix). Yet, the JCI continued to make record highs (but only in rupiah terms).

In terms of valuation, the JCI is trading at 16x PE15 based on consensus estimates. However, consensus almost never estimates negative EPS, until it's too late. When using actual EPS based on first quarter 2015 numbers , the JCI is trading at a very stretched 22.5x rolling PE which implying a 40% premium to consensus.

The question is why do we have a disconnection between the JCI and macro weakness? In our humble view, there are some possible explanations:

- Indonesia has an excellent demographic profile and low-based penetration of everything. Thus, it is simply easy to fall into the trap of extrapolating everything, from per capita consumption (eg Milk, Chicken to cars etc) to GDP per capita growth projectile.

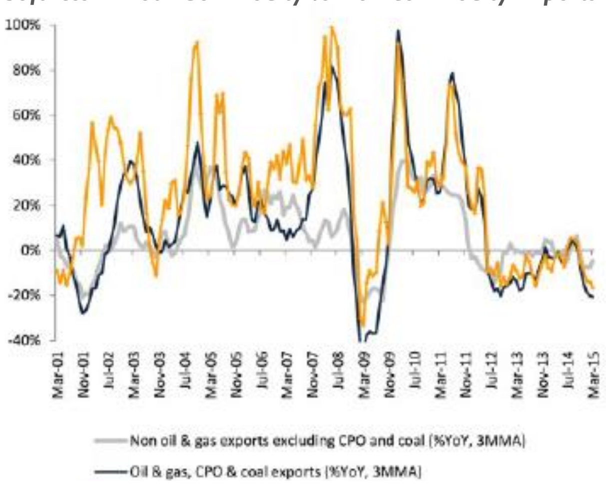


Source: CIMB

- Expectation that second half of the year will be better thanks to potential rate cut and infrastructure spending.
- In the past decade, investors have consistently made money by buying on the dips. Commodity driven bull market and strong asset prices have definitely left a legacy of optimism. This optimism is further fueled by the election of an outsider and pro-reform President Jokowi.
- Mutual funds in Indonesia are mainly distributed by banks. Incentivized by the fee structure, banks have been buying and selling these funds faster than Manny Pacquiao can punch (we even encountered a sales person guaranteeing 20-30% returns). This super close performance monitoring has resulted in an immense pressure for some fund managers to perform and not to miss any upside…even when the storm is coming.

The Heyokha spirit in us sent a reminder that bad weather is bad weather. With weakness in the commodity spectrum, the economy is already slowing to a creeping pace and at the same time valuation is still very rich.

Softness in Both Commodity vs Non-commodity Exports

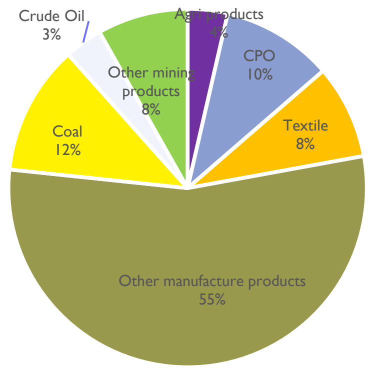


Source: BPS, CEIC, Morgan Stanley

In fact, the country's biggest export, i.e. coal, is now facing a huge challenge.

In the first quarter of 2015, China's coal imports fell 42% from the previous year, due to a slower economy and tougher air pollution standards. In the second quarter, China is planning to revive coal exports.

Indonesia Export per Feb '15



Source: Bank Indonesia

During the 13th Coaltrans Conference in April 2015. Shenhua and Datong – two big Chinese coal companies – have mentioned they plan to restart exports. It is worth remembering that China's turning into a net coal importer in 2008 has propelled the bull market in coal, and Indonesia's trade and current account balance. In the process creating massive wealth in Indonesia.

These pictures were taken in Jakarta.
Wealth from commodities?

Source: Heyokha

The pollution issue in China is as real as it gets. Last month, a documentary about China's smog-filled skies went EPICLY viral ("viral" would be an understatement) and sparked debate over how to save country from environmental catastrophe.

In case you want to watch the full video:

http://www.npr.org/blogs/parallels/2015/03/04/390689033/the-anti-pollution-documentary-thats-taken-china-by-storm

Interestingly, China halted its rapid nuclear power expansion in 2011, when Japan's Fukushima Daiichi nuclear power complex experienced meltdowns after a deadly tsunami. In March, the Chinese government approved the construction of two new nuclear reactors, giving a long-awaited go-ahead to Chinese nuclear developers.

The fact that Indonesia is the market that we are most familiar with should not be a reason to ignore the hard truths. Quoting another legendary mountaineer, Lou Whittaker:

"Just because you love the mountains doesn't mean the mountains love you"

Lessons from the Himalayas #3: Independent Mind and Independent Research

Heyokha team spends considerable amount of time to do on the ground research and find ideas that have not been discovered and hyped up by the sell side. Despite our negative macro view, we have identified a few reform themes (read our previous reports) where we feel new government policies will be a big tailwind to these sectors.

Major tailwind theme: Agriculture (support for the grassroots)

We listened attentively to Jokowi while he was speaking about his reform plans during 2014 Presidential election campaign.

President Jokowi with Ministry of Agriculture, Amran Sulaiman and farm productivity.
The President means business.
Source: Harian Nasional

While there were a long list of interesting potential reforms, it was President Jokowi's ambition to have crop self-sufficiency that caught our attention. Specifically giving free seeds to farmers and also implementing larger scale farming.

Why? Unlike many other reforms where you are not only likely to shake up the cozy status quo structures in place, implementation can take a long time (for example, the average time from planning to just the ground breaking of a new toll road project takes an average of 5 painful years).

By comparison, just giving good seeds to farmers is much easier to implement. More importantly it makes pretty much everyone - from farmers to consumers to politicians - happy. Even agriculture products distributors are happy despite that they earn less revenue from sale of seeds. Farmers will now have extra cash to buy other products such as pesticides. In other words, it's a win-win for everyone.

This link is good summary of President Jokowi multi-year ambition on food self-sufficiency:

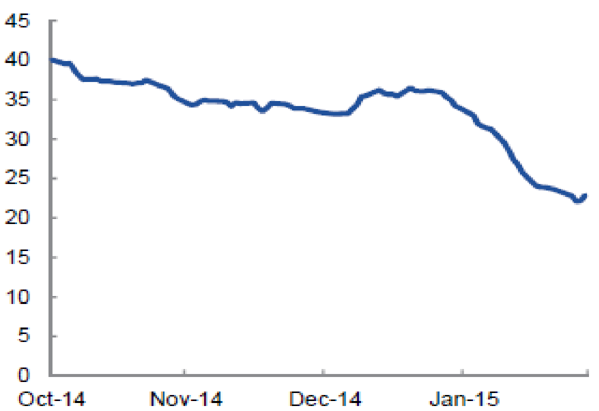
http://www.thejakartapost.com/news/2014/12/27/jokowi-aims-food-self-sufficiency-three-years.html

Why does the government think we need self-sufficiency?

First, rice is central to Indonesians' diet. The country's per capita intake of calories from rice is fifth largest globally. Any sharp appreciation in rice price is a major cause for concern. In addition, given Indonesia's large fertile land mass, it simply does not make sense that the country is a net importer of many key cash crops such as rice and corn.

Rice production decline in 2014 contributing to a significant decline in stocks over late 2014 and early 2015

(Cipinang market stocks, thousand tons)



Source: PT. Food Station Tjipinang Jaya, World Bank

Second, the World Bank estimates that rice consumption per capita in Indonesia has fallen from 96kg in 2005 to 85kg in 2014, but total consumption is still likely to rise. This structural rise will put ever greater pressure on Indonesia's domestic rice production, which currently accounts for around 95% of supply.

Third, in the longer run, total production growth has been slowing on a structural basis, with production growth over 1990-2011 at less than half the rate of 1961-1990, mainly thanks to falling productivity or yield growth.

Total rice production growth remains slow, driven by low yield growth, (annual growth, percent)

	'61-'70	'70-'80	'80-'90	'90-'00	'00-'11
Yield	3.4	3.3	2.7	0.2	1.1
Area	1.9	1.0	1.5	1.2	1.0
Production	5.4	4.4	4.3	1.4	2.2

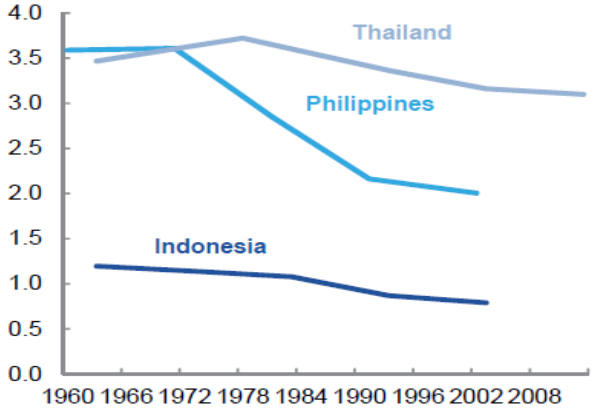
Note: *Annual increase is compound annual growth rate.

Source: IRRI, FAO, World Bank

The challenge for the country is that Indonesian farmland is extremely fragmented. As such, there is no economies of scale and the mechanization progress is slow. Low wages for the farming job means no one wants to be a farmer. Poor infrastructure, such as lack of irrigation and access to roads, doesn't help either.

Average operational farm size in Indonesia is lower than in the Philippines and Thailand

(Average farm size, hectares)



Note: Average farm size is total farm area in a locality divided by the number of farms. There farms include rice and other crops.

Source: National Agricultural Censuses, World Bank.

As for corn, the situation is not much better. According to the Association of Indonesia Feed Producer, Indonesia corn demand in 2015 is about 8.4 million ton, while the corn production is only 3.7 million ton.

The new Minister of Agriculture now aims to be able to reach self-sufficiency of corn in 2016. This is a big challenge for them as corn demand has grown by 40% per annum, meanwhile corn production growth is slower which is at 6%. To reach the self-sufficiency stages, ministry will implement several strategies which are:

1) Expanding the corn field acreage by 1 million ha in 2015. The Government has allocated **Rp2.5tn (US$190m) for the land and Rp750bn (US$58m) for corn seed procurement**. Currently, government has added 640ha of total target field opening.

2) The Ministry aims to increase yields from 5 tons per ha to more than 8 tons per ha by getting farmers to switch from conventional to higher yielding hybrid seeds

3) Irrigation system improvements. Ministry of Agriculture stated that about 3 million ha or 52% of all irrigation in Indonesia is troubled. This year, they plan to fix 1.5 million ha land with irrigation problems and per 1st quarter, they had fixed 800k ha land.

4) Agriculture production equipment procurement. This year, Government will provide 50k unit production equipment and 300k tractor across in Indonesia.

5) Socializing with local farmers in order to intensify land usage for corn production.

6) Spreading 800 agriculture advisors across regencies in Indonesia.

7) Supervising subsidized fertilizer distribution.

As shown above, the key challenge for Indonesia is the low level adoption of technology (Look at President's Jokowi's farming equipment in the photo above). Thus we conclude that by far the most effective way to improve productivity quickly is by switching from conventional seeds to higher yielding seeds.

How about implementation?

While we are confident that the seed subsidy program is relatively simple to implement, we looked for comfort that the government has executed the program effectively, as such less prone to abuse.

One key distinction in this program is that farmers will have a say on which seed they consider most suitable for their soil. These aggregated requests will then be submitted from the regional to the central government for procurement. Our latest research tells us that the seed distribution *already* started late April 2015 and so far the process has been orderly.

It is also important to note that the current agriculture minister Amran Sulaiman has a good working relationship with the parliament, paving the way for approval of Rp32tn (US$2.5bn or 1.7% of total government spending) agriculture subsidy, which represents a 141% increase YoY. The central government budget has been approved on Feb 18th, out of which Rp750bn (US$58) is allocated to corn seed distribution (15k tons @ Rp50k/kg) and Rp630bn (US$48m) has been tagged for rice seed (Rp60k tons @ Rp10k/kg). This presents a 10 and 20 fold increase respectively compared to last year.

To put this in perspective, 15k tons corn seed and 60k rice seed only covers about 1m ha corn area and 2.3m ha of rice out of a total of 3m ha and 12m he of planted corn and rice area in Indonesia. Thus the scoop to increase the subsidy is significant if the current program proves to be successful.

Of course, then the relevant question is which corn and rice seed that the farmers prefer?

Heyokha team figured that there is no better way of getting to know this than by asking the farmers directly. We went directly to the heartland of East Java to interview corn and rice traders, farmers, plus retail and wholesale points for agricultural products. This is a trip we set up independently so we would come up with the most objective conclusions.

Below a few pictures from our research trip

Talking to the biggest farming product distributor in Malang, east Java
Source: Heyokha

Interviewing the corn trader
Source: Heyokha

Workers at a major corn receiving terminal
Source: Heyokha

Corn farmer counting his blessings
Source: Heyokha

This trip strengthened our conviction in one company in the center of the agriculture theme and have since added a meaningful position to our portfolio.

The stock is trading at 12x 2015 earnings and we forecast earnings will grow by a CAGR of 40-50% over the next 3 years. A rare tailwind theme in a market faced with multiple headwinds.

Indonesia: Not Too Hot, Not Too Cold?

One final note on Indonesia. With all the challenges on the political front and macro issues, it is easy to embrace a super negative view on the country. However, it is important to adopt a more balanced view here. Indonesia still exhibits massive potential.

Tough time for property developers. Rows of unsold shop houses in East Java. An entrepreneur selling durian ice jazzed in the empty parking lot.

Source: Heyokha

Indonesia is on the opposite side of countries like Japan and China. Indonesia needs to move away from a consumption led economy to more of a supply side one. It's true that demand is slowing down in Indonesia but the pent up demand has never been a problem, thanks to favorable demographic, a generally optimistic society, and willingness to spend.

Also, Indonesia doesn't have a balance sheet issue with a managable public debt to GDP of around 26%. The banking system is also very well capitalized with the leading banks like BCA and Mandiri having a low gearing level of about 7x.

We have learnt from our sell side career that Indonesia will disappoint both super bullish and super bearish investors. That's why it is worth keeping in mind the advice from one of the country's leading tycoons, Anthony Salim from the Salim Group. If there is one family that understands Indonesia inside out, we think it is the Salims. Anthony Salim's operating manual for Indonesia can be summarized below:

"The main thing is knowing where you put yourself. You get burned if you're too close to the fire; when you're too far away, you get cold and die. Just to be warm enough to feel the heat, but you don't get burned."

- Anthony Salim -
From the book Liem Sioe Liong's Salim Group,
by Richard Borsuk and Nancy Chng.

Yes, Indonesia is now hampered by politicking and some bad policies. But we don't want to go too far away and get cold. Heyokha Brothers will always be on the pulse of developments.

Currently, there are a number of steps being discussed to arrest the macro slowdown. Heyokha has a mixed view on these steps. Whilst some are addressing the country's supply side issue, such as acceleration of the infrastructure projects, other steps suggest bigger government role (central bank policy rate intervention) and the return to the old consumption driven model (e.g. mortgage relaxation).

One big step that can help to restore confidence is the cabinet reshuffle. If well executed, this reshuffle could be a catalyst for positive change needed. We will watch this space very closely.

In essence, Indonesia is still very much a resources driven economy. It is important to know that if there should be a sustainable recovery in commodities driven by Chinese demand, the outlook for Indonesia would likely improve. Increasing export revenues would help finance imports and provide additional room for BI to cut interest rates. It is worth noting that commodities have been in a bear market in the past four years. Historically, a consecutive five straight years of commodity price decline is extremely unlikely. The question is which commodity can see a sustainable recovery that benefits Indonesia's exports.

-The End-

Non-Public Equity Investing by the Heyokha Brothers

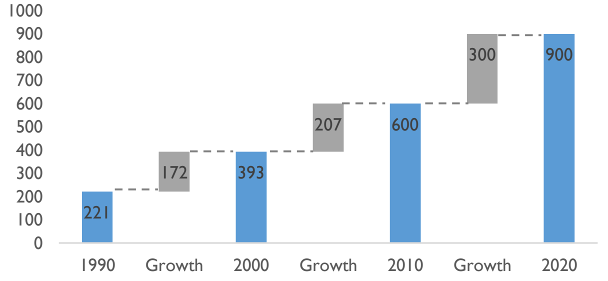
It has been nine months since our launch, we think this is a good time to reflect. Over the past decade or so, the private equity industry in Indonesia has evolved much. Many pioneers in the industry today blossomed together with the commodity super cycle. That has set the stage for many multinational funds to come into Indonesia, as well as local start-up funds, culminating into a very competitive environment in Indonesia. In turn, this has created a bidding war for target companies and hence valuation expectations have gone through the roof.

"Asset prices are and will remain high as investors of all types wielding record amounts of capital, including GPs sitting atop mountains of dry powder, are willing to bid up acquisition multiples to acquire assets."

Global Private Equity Report 2015
Bain & Company, Inc.

The rapid growth of financial capital has shaped the global economy—and PE—since the 1990s

Total world financial assets (USD trillion)



Source: Bain & Company

Certainly the summit fever has cautioned us and we continue to strive to maintain a disciplined approach. We designed the special investment (non-public investments) part of Heyokha Partners to be able to maximize long-term capital growth. Unlike the more institutional style of private equity investment, our special investment does not operate under a set expiration framework. We look for pieces of good businesses to own and be true long term partners with the owner/founder.

Maxed Out on Everest – A Crowded Everest May Spell Danger

Source: National Geographic

We emphasize on identifying good management teams to work with, where we can be advisors/counsels to them from time to time, adds tremendous value to the company as they grow their businesses. But at the same time, our existence and role in the company is not so overbearing that the owner feels like they are working for us. We strive to strike the right balance between trusting the management to drive the direction and involvement and assistance in certain aspects of the business to ensure we reach the same goal.

For business owners and entrepreneurs, equity is gold. We do not take it lightly when given an opportunity to become partners in a business. Hence, we are very selective in our target companies and only invests when we understand deeply and able to value to. Consistent to our investment mandate, we focus our search for growing small to medium size consumer branded companies, with a proven track record and positive cash flows. In sum, we strive to identify businesses that exhibit the following characteristics:

- Demonstrated consistent earning power (projection is particularly difficult in emerging markets)
- Businesses earning good returns on equity while employing little or no debt
- Passionate owner-managers in place
- Simple businesses that can be explained in a couple of sentences
- Scalable business with large addressable market
- Strong local brand with unique positioning and culture

"For good reason, I regularly extol the accomplishments of our operating managers. They are truly All-Stars who run their businesses as if they were the only asset owned by their families. I believe the mindset of our managers also to be as shareholder-oriented as can be found in the universe of large publicly-owned companies. Most of our managers have no financial need to work. The joy of hitting business "home runs" means as much to them as their paycheck."

Berkshire Hathaway 50th Anniversary 2014 Letter to Shareholders

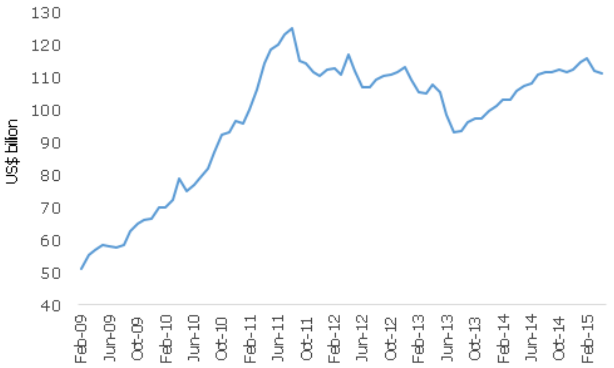
While the above may not be applicable to many smaller Asian companies (since the majority of them are owned by owner-manager), we love closely held businesses run by passionate and singularly focused owners looking for a long term partner that are often overlooked by larger and more established institutional funds due to their minimum investment ticket size.

We are currently in discussions with several interesting prospects in the retail and F&B space that meet the criteria described above, they are seeking growth capital for the expansion of their existing businesses. We are pleased with the traction gained thus far in these discussions with business owners and we continue to brainstorm what we can explore together. Since many of these businesses do not have professional management in place, our role inside the organization usually involves assistance in corporate finance and business development.

HEYÓKHA BROTHERS

Appendix – Bad weather in Indonesia

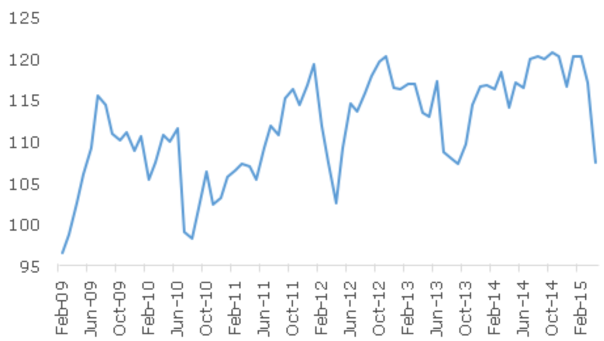
Indonesian foreign exchange reserve in US$ billion



Source:: Bank Indonesia

Foreign exchange reserve has declined in the past two months but still sufficient to cover 6-7 months import.

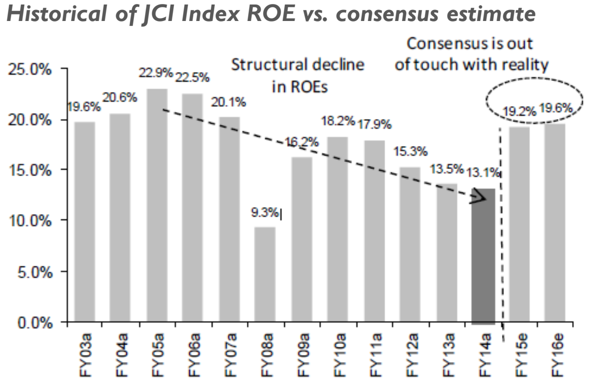
Consumer Confidence Index - Indonesia



Source:: Bank Indonesia

Consumer confidence index fell significantly since beginning of this year after currency depreciation and also weak consumption data points.

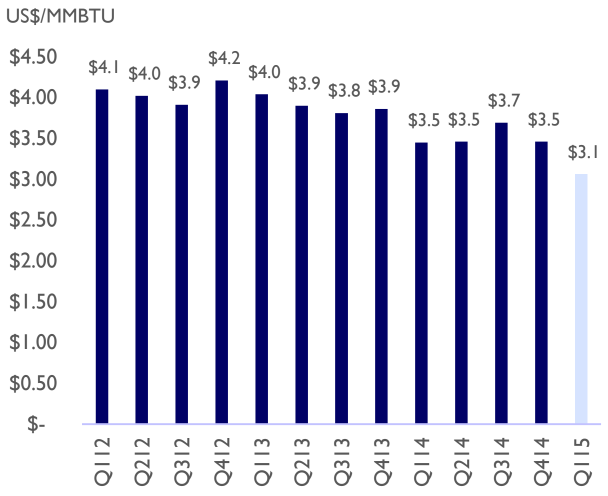
Historical of JCI Index ROE vs. consensus estimate



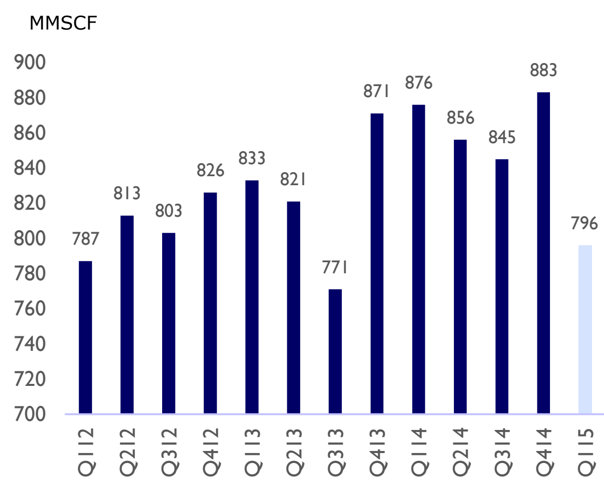
Source: Macquarie

The chart above clearly shows that consensus estimate has ignored the structural declining trend in ROEs. Furthermore, Q1 2015 ROE was only 11.7%, which means negative trend continued.

Perusahaan Gas Negara (PGAS IJ)
Quarterly trend in distribution spread



Quarterly trend in distribution volume



Source: Company data, Macquarie

Perusahaan Gas Negara (PGAS IJ), the largest gas company posted negative growth on volume.

Furthermore, the chart on the top right shows PGAS distribution spread has been declining since 2012. This means lower surcharge that PGAS could make. In essence, this suggests overall lower industrial activities.