Atlantis
Investment Management

Atlantis China Fund

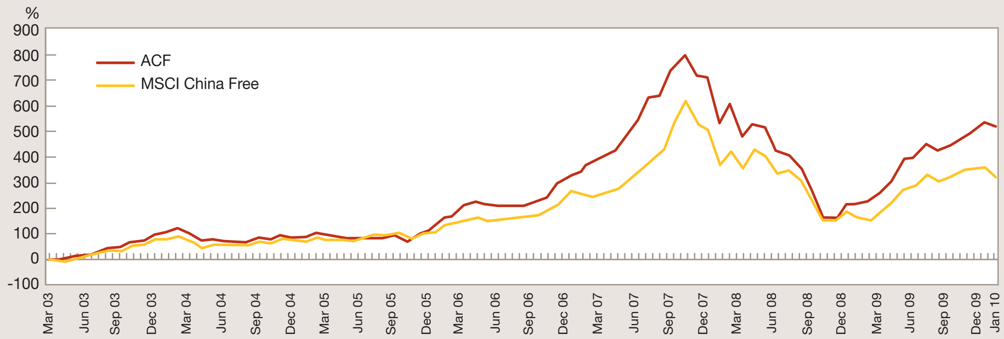
A sub-fund of the Atlantis International Umbrella Fund, an open-ended umbrella unit trust established as a UCITS III and listed in Dublin. The objective of the Fund is to achieve long-term capital appreciation through an actively managed portfolio of equity and equity related investments in The People's Republic of China. The Fund focuses on a portfolio of mainly small to mid-cap Chinese equities, investing predominantly in B shares, H shares, Redchips and P-Chips. The Fund may also invest in A shares through the use of structured products.

Key Holdings

Ticker	Stock	Industry/Sector	Asset class	Price move in Jan (%)
3323 HK	China National Building Materials	Construction/Building Materials	H-share	-19.4
1818 HK	Zhaojin Mining	Gold Producer	H-share	-9.9
8199 HK	Shandong Weigao	Medical Devices and Instruments Manufacturer	P-chip	+9.7
818 HK	Hi Sun	Electronic Payment Products and Services Provider	P-chip	-0.5
171 HK	Silver Grant	Natural Resouces and Nuclear Energy Related Investments	Red-chip	-5.2

Source: Atlantis - All figures in HKD as at 29 January 2010

Fund Performance - Since Inception



	Jan	YTD	3 Month	6 Month	12 Month	3 Year	Since Inception
ACF (%)	-3.4	-3.4	6.6	11.4	91.5	38.4	511.5
MSCI China Free (%)	-8.6	-8.6	-6.0	-3.1	58.2	18.8	316.4

	2003*	2004	2005	2006	2007	2008	2009
ACF (%)	95.6	-5.2	14.1	98.1	92.6	-59.9	95.7
MSCI China Free (%)	78.7	-0.8	15.9	78.1	63.1	-51.9	58.8

* Period from 19 March 2003 to 31 December 2003

Source: Atlantis - All figures in US$ as at 29 January 2010

Highlights of the Month

- Welcome to an inflationary world
- The Year of the Tiger signifies power but unpredictability
- The Fund outperformed amid a market correction

Investment Comment

In 2010 we are entering an economic cycle marked by inflation, although real inflation is only at the stage of being discussed. The potential problem of overheating rather than recession overshadowed markets in January.

2010 marks the beginning of a new decade of consumption for China. Chinese growth is now firmly rebalanced to domestic demand. The drivers for consumption growth are compelling: demographics (peaking savings rate and baby boomers as a consumer force), rising wealth and wages, shifting inflationary expectations and social welfare spending (healthcare, education, rural sector and pensions).

In January, China's headline CPI came in at a 1.5% increase YoY, compared with 1.9% in December 2009. This marks the third consecutive month of positive growth. The CPI forecast has been revised to 4-5% for 2010, potentially exceeding the Government's comfortable level of 3%. Excess liquidity and food prices are the main factors behind China's current inflation.

Following the RRR hike in early January and targeted RRR hikes for banks with the highest loan growth, the PBOC raised the RRR by a further 50bps on the day before the Chinese New Year long holiday (12 February 2010). This brings the RRR for major banks to 16.5%.

Newsletter

as at 29 January 2010

Fund Detail
Registered for Sale: United Kingdom, The Netherlands and Germany
Status: UCITS III / FSA recognised
Domicile: Dublin
Listing: Irish Stock Exchange
Inception Date: 19 March 2003
Minimum Investment: $250,000
Valuation: Daily
Subscriptions: Weekly (Wednesday)
Redemptions: Weekly (Wednesday)
Deadline: 17:00 Dublin, prior business day
Unit Type: Distribution*
*This fund will apply for distributor status annually
Charges: Initial fee – up to 5%
Management fee – 1.75%p.a

Prices Available From
Bloomberg – ATLCHNA ID
Lipper – 60081599
S&P Micropal – EM360558
ISIN – IE0031603545
SEDOL – 3160354
Financial Times – FT Managed funds service

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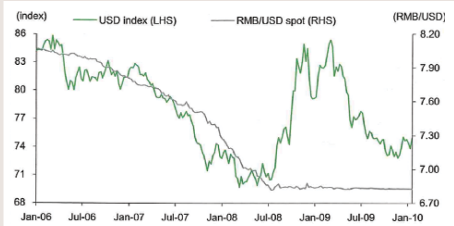
This should soak up about RMB300bn (US$44bn) of liquidity from the banking system. The hike reflects the Central Bank's intention to intensify the withdrawal of excess liquidity (especially the massive liquidity injection ahead of the holiday), smooth out the pace of credit expansion and contain inflation expectations.

Chinese policymakers have obviously become more concerned about excess liquidity as well as growth. To get macro policy right at this point of the economic cycle is the biggest challenge facing the Chinese authorities. Given a much improved external environment, a shift in the growth driver to domestic consumption and lessons learned from previous hard landings, a proactive approach has been taken as we enter 2010 in order to fend off inflation which is expected to return in the second half of the year. This approach has been echoed in recent policy initiatives targeting the property sector. The Government aims to curb speculation and encourage supply to prevent prices climbing too rapidly in major Chinese cities. 2009 property sales rose 42.1% YoY to 937.1m square metres and the sales value surged 75.5% YoY to RMB4.4trn (US$645bn). These numbers surpassed pre-crisis 2007 records.

We expect the PBOC to resume quantitative monetary tightening in the form of RRR hikes and credit quotas, though there is no rush to raise interest rates until the second half of 2010 if CPI above 5% persists. The PBOC will likely raise the RRR by another 100bps during the remainder of 2010. On the currency front, speculation is growing that the PBOC will re-introduce exchange rate flexibility from mid-year by moving towards a regime that more explicitly uses a currency basket as a reference (see Chart 1).

The Tiger is the third sign of the Chinese zodiac. Tigers are powerful but unpredictable which could well describe this year's market performance. Market moves may be powerful but currency movements will be the biggest cause of unpredictability. This remains a large area of uncertainty and we have already seen sudden moves by the US dollar. Growth is much less of a concern in 2010 and we expect it to overtake that of 2009. Investors are instead worried about the risk of overheating, which could increase the Chinese Government's policy bias towards tightening.

Chart 1: RMB/USD Spot Rate vs. USD Index



The RMB re-peg to the USD started in July 2008. China may scrap the peg and re-adopt a managed flow scheme, although the worsening US-China relationship clouds the outlook.

Source: BNP Paribas

Investment Strategy

The Fund continued to outperform in January when the overall markets were in correction. The Fund was down 3.4% while the benchmark was lower by 8.6%. Our outperformance can be attributed to the rebalancing exercise in Q4 2009 which included overweighting towards P-chips. The portfolio has been positioned towards the major themes of agriculture, alternative energy and TMTs which are likely to perform well in an environment of excess liquidity and policies which boost domestic demand. Thanks to good inflows during the month we were able to accumulate good quality names on market dips/weakness. We remain confident that the portfolio will continue to outperform in 2010.

There were 48 holdings in the portfolio at month-end. The top 10 holdings accounted for 46.6% of the total net asset value and the top 20 for 68.4%. We have not wasted any time, putting money to work when we saw good buying opportunities. Hong Kong listed Chinese blue-chips are the cheapest asset class in the Asia ex-Japan space, trading at forward 12x P/E 2010 and offering 20%+ earnings growth for 2010. Judging purely on fundamental grounds and currency values (not on political shifts and current global influences), Chinese blue-chips should move at least 20% higher from their 2009 level. We will have to monitor the changes in currencies and global sentiment but China's decoupling story is more appealing today than ever before.

We prefer the real economy to the financed economy in a world that is vulnerable following the credit crisis, which is still sending shockwaves around the globe today. Therefore, our portfolio focuses on those stocks that are exposed to real demand, real consumers and real growth in China. Our unique approach of combining top-down and bottom-up processes has led us to identify those market leaders with the likelihood of sustainable growth.

We are fully aware that there is always a timing gap between contrarian and crowded behaviour in the marketplace. In particular, it is increasingly challenging to identify the market direction for China after the 2009 rally. However, does any country have an economy more healthy than China in 2010?

Fund Data

Issue price (rebased): $1.21
Issue price (adjusted following merger): $10.00
Launch date: 19 March 2003
NAV per share: $7.4100
NAV high: $10.9891 (1 November 2007)
NAV low: $1.1834 (25 April 2003)
Number of shares in issue: 57,860,650
Fund size: $429m
Number of holdings: 48

Source: Atlantis - As at 29 January 2010

China Market Indicators

	Jan	Q4 09	2009
HSI	-8.0%	4.4%	52.0%
HSCEI (H Shares)	-10.1%	7.9%	62.1%
HSCCI (Red Chips)	-4.5%	4.3%	23.3%
CSI 300 (A Shares)	-10.4%	19.0%	96.7%
MSCI China Free	-8.6%	9.5%	58.8%
RMB / USD	6.8271	-0.01%	-0.02%

Source: Atlantis - As at 29 January 2010

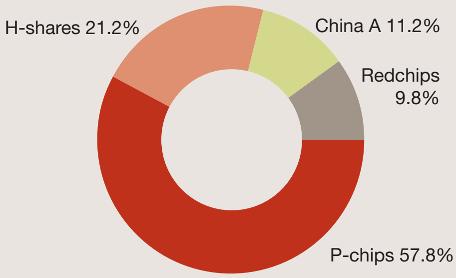
Portfolio Exposure

Market Capitalisation (US$)

Market Capitalisation (US$)	% NAV
>5bn	6.7
2bn – 5bn	17.2
500m-2bn	53.5
100m - 500m	15.2
<100m	7.4
Cash	0.0

Source: Atlantis - As at 29 January 2010

Asset Allocation



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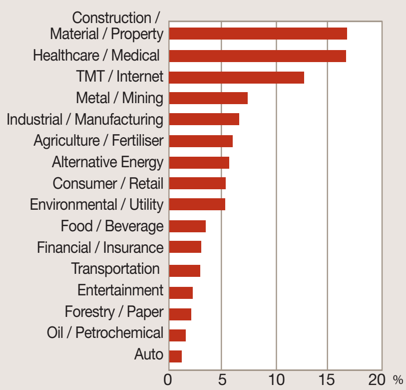
Sector Breakdown



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