Value Partners
Investing through discipline

25 YEARS

The Response of Value Partners Hong Kong Limited to the Proposed Liquidation of The Asia Pacific Fund, Inc.:

September 6, 2018

Dear Stockholder:

Value Partners' response to the Fund's proposed liquidation

In light of the proposal to liquidate The Asia Pacific Fund, Inc. (the "Fund" or "APB") at the 2018 Annual Meeting of Stockholders on 12 October 2018; we at Value Partners strongly believe that the Fund remains a favorable investment vehicle and that liquidation of the Fund would be untimely. We expect a number of short-term headwinds to reverse in the next 6 to 9 months and, as such, recommend that investors either not liquidate the Fund or give the manager more discretion on the timing of liquidation:

1) **US-China trade resolution**

   The ongoing US-China trade saga has been the major headwind, in particular towards China-related equities given the tariff hike on an additional USD 200bn of Chinese exports. While the latest round of trade talks ended without any breakthroughs in August, China is the last major US trading partner to not have come to an agreement (after Europe and assuming the NAFTA deal is complete). US President Donald Trump's ability to govern in the final two years of his first term hinges upon the impending US mid-term elections and, as a result, we expect he will be looking for some "easy wins" in the lead up to it. The resolution of the US-China trade tension would relieve a significant market overhang.

2) **The strong dollar and policies to strengthen the Chinese Renminbi**

   A strong dollar has impacted most Asian currencies, with many depreciating by 4% to 10% this year and driving a significant amount of capital outflows. A number of Asian central banks have raised or are mulling interest rate increases in response to the higher inflation levels and weakened currencies. The RMB has also depreciated rapidly against the dollar since the middle of 2018 (6% from mid-June to the end of August), which drove the People's Bank of China's to re-introduce its "counter-cyclical" measure in late August. In the past, a similar measure debuted in May 2017 when the CNH was at ~6.8 levels. The measure led to a gradual appreciation of the RMB in the subsequent 6 months to 6.3 levels before it was halted by the PBoC. Consequently, we believe the RMB is set to stabilize and may recover some of its lost ground against the dollar, which will reduce some of the pressure on the capital outflows China is currently experiencing. Equity markets tend to recover once currency worries subside.

3) **Early signs of monetary loosening in China**

   Deleveraging has been one of China's major focuses over the past few years given its high absolute internal debt levels and the significant amounts of funds raised via shadow banking channels. Domestically, it remains to be seen just how committed the authorities are towards the deleveraging process and how much pain they are willing to take in order to push the necessary reforms through. Early signs of monetary loosening, however, are starting to emerge in the third quarter as China's economic growth moderates. Some anecdotal changes include: the decrease of 1 month SHIBOR rates from over 4% in June to just 2.7% in late August and the accelerated pace of local special infrastructure bonds issued in the same month. It is too early for investors to be concerned about the Chinese economy as the authorities attempt to balance between GDP and credit growth.

4) **Healthy fundamentals, undemanding valuations and significant developed market divergence**

   We believe that investors have recently been too caught up in the bearish sentiment and have chosen to ignore the latest round of earnings results. With the reporting season almost completed, earnings grew 15% year over year across the MSCI China Index.

   In spite of the solid results, the MSCI China Index's average forward P/E ratio dipped to just 10.7x as of the end of August 2018. As a reference, the MSCI Asia ex Japan Index is at 12.3x and the US market valuation is 16.6x.

   Market performance divergence has been noticeably wide. The year to date return of MSCI Asia ex Japan Index was at a -6.6% correction in comparison to MSCI Developed Markets return of +3.4%. In the era of synchronized global markets, this level of market divergence is statistically reminiscent to the 2008, 2013 and 2015 era, where the MSCI Asia ex Japan Index subsequently outperformed.

5) Limited value unlocked on liquidation

Over the past year, the discount at which the Fund's shares have traded with respect to its per share net asset value ("NAV") has narrowed on the back of expectations of potential liquidation. The current discount to NAV is only -3.3% as of August 31, and the average discount level over the past year is -5.3%. While we understand investors' rationale to unlock the one-off liquidation value, one should carefully compare this against the potential return of the Fund given the volatile market environment. We recommend that investors carefully consider the timing and not force sell a sale of the Fund's portfolio at what we perceive to be currently depressed levels.

Finally we would like to remind investors of APB's portfolio's historical return, which is stronger performance as compared to other closed end funds, and portfolio statistics:

APB - Performance Review

As of 30 June 2018	APB (NAV)	APB (market price)	Index*
2018 YTD	-4.2%	-4.0%	-4.7%
One Year	9.4%	11.5%	10.2%
Three years Annualized Return ∆	3.6%	6.6%	7.3%
Five years Annualized Return ∆	7.8%	8.9%	8.5%
Ten years Annualized Return ∆	4.2%	4.7 %	5.9%
Since VP managed APB ∆ (Annualized)	8.0%	9.4%	7.6%

Source: Bank of New York Mellon & Reuters for NAV and market price respectively, MSCI for Index, data as of 30 June 2018. Total return at NAV is based on changes in the NAV of Fund shares and assumes reinvestment of dividends and distributions, if any, at market prices pursuant to the Fund's Dividend Reinvestment Plan. All return data at NAV includes fees charged to the Fund and may reflect fee waivers and/or expense reimbursements. Without such, returns would be lower. Total Return at Market Price is based on changes in the market price at which the Fund's shares traded on the NYSE during the period and assumes reinvestment of dividends and distributions, if any, at market prices pursuant to the Dividend Reinvestment Plan. Because the Fund's shares trade in the stock market based on investor demand, the Fund's shares may trade at a price higher or lower than its NAV. Therefore, returns are calculated based on both market price and NAV. All returns for 1 year or less are cumulative. Returns are shown in USD. To comply with Securities and Exchange Commission regulatory requirement, the methodology for calculating the total return was calculated in accordance with the instruction of Securities and Exchange Commission Form N-2, Item 4. The source of market price data was changed from Bloomberg to Reuters & Bank of New York Mellon since November, 2016.

* *The Fund has adopted as its reference index as of April 1, 2010, the MSCI All Countries Asia ex Japan Index. Prior to this the Fund was shown against MSCI AC FE Free ex Japan Index Total Gross Return.*

∆ *Management of the Fund switched to Value Partners on October 1, 2013.*

	Asia Pacific Fund	Benchmark*
P/E	8.7x	11.9x
P/B	1.1x	1.6x
Yield	4.3%	2.4%

*Source: Value Partners & Thomson Reuters, data as of 30 June, 2018 *Benchmark: MSCI All Countries Asia ex Japan Index.*

APB – Peer Group Comparison

	NAV Performance		
Peer Group – US Listed Closed-end Funds (Asia focused)[2]	Since VP managed APB (1 Oct 2013 – 30 June 2018) (Annualized)	Last 12 months (1 July 2017 – 30 June 2018)	2018 YTD (1 Jan – 30 June 2018)
Asia Pacific Fund [1]	8.0%	9.4%	-4.2%
MS Asia Pacific Fund	3.6%	5.6%	-5.8%
Voya Asia Pacific High Dividend Equity Income Fund	3.1%	0.8%	-6.3%

1) *Source: Bank of New York Mellon & Reuters for NAV and market price respectively, MSCI for Index, data as of 30 June, 2018. Total return at NAV is based on changes in the NAV of Fund shares and assumes reinvestment of dividends and distributions, if any, at market prices pursuant to the dividend reinvestment program. All return data at NAV includes fees charged to the Fund and may reflect fee waivers and/or expense reimbursements. Without such, returns would be lower. Total*

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Return at Market Price is based on changes in the market price at which the Fund's shares traded on the NYSE during the period and assumes reinvestment of dividends and distributions, if any, at market prices pursuant to the dividend reinvestment program. Because the Fund's shares trade in the stock market based on investor demand, the Fund may trade at a price higher or lower than its NAV. Therefore, returns are calculated based on both market price and NAV. All returns for 1 year or less are cumulative. Returns are shown in USD. To comply with Securities and Exchange Commission regulatory requirement, the methodology for calculating the total return was calculated in accordance with the instruction of Securities and Exchange Commission Form N-2, Item 4. The source of market price data was changed from Bloomberg to Reuters & Bank of New York Mellon since November, 2016.

2) *Source for the peer group is from Morningstar as of 31 March, 2017. Performance in USD, NAV to NAV, and net of all fees. The calculation is based on October 1, 2013 , the date that Value Partners started to manage the Fund.*

Geographic and Sector Exposure

Country	Asia Pacific Fund	Benchmark*
Hong Kong	35.4%	21.0%
H Shares	17.4%	11.1%
Red Chips	10.0%	5.3%
South Korea	10.0%	16.5%
Taiwan	8.9%	13.2%
Indonesia	5.5%	2.2%
A Shares	3.5%	0.4%
Cash	3.1%	—
Singapore	2.5%	4.6%
Thailand	1.6%	2.5%
Philippines	1.0%	1.1%
Malaysia	0.6%	2.6%
B Shares	0.5%	0.1%
India	—	9.8%
US (ADRs)	—	9.6%

Sector	Asia Pacific Fund	Benchmark*
Financials[Δ]	20.6%	22.8%
Real Estate	18.1%	6.0%
Industrials	17.0%	6.5%
Consumer Discretionary	15.7%	8.9%
Information Technology	10.6%	31.6%
Utilities	4.1%	3.1%
Telecommunication Services	4.0%	3.7%
Cash	3.1%	—
Consumer Staples	2.8%	5.0%
Health Care	1.6%	3.2%
Materials	1.4%	4.7%
Energy	1.0%	4.5%

Source: Value Partners and MSCI, data as of 29 June, 2018

* *Benchmark: MSCI All Countries Asia ex Japan Index*

Δ *Asia Pacific Fund's Financials sector includes Banks (10.6%), Insurance (6.0%), and Other Financials (4.0%)*

Value Partners Hong Kong Limited
September 6, 2018

Disclaimer:

Past performance does not guarantee future results and current performance may be lower or higher than the past performance data quoted. The investment return and principal value will fluctuate, and shares, when sold, may be worth more or less than the original cost. Index returns do not include the effect of any sales charges, fund operating expenses or taxes. An investment cannot be made directly in an index.

Unless specified, all information contained in this report is quoted as at June 30, 2018. The views expressed are the views of Value Partners Hong Kong Limited only, as of the date specified, and are subject to change based on market and other conditions. The information provided does not constitute investment advice and it should not be relied on as such. All material has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. This material contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected. Any securities mentioned above are for illustrative purpose only, and not a recommendation to invest or divest.