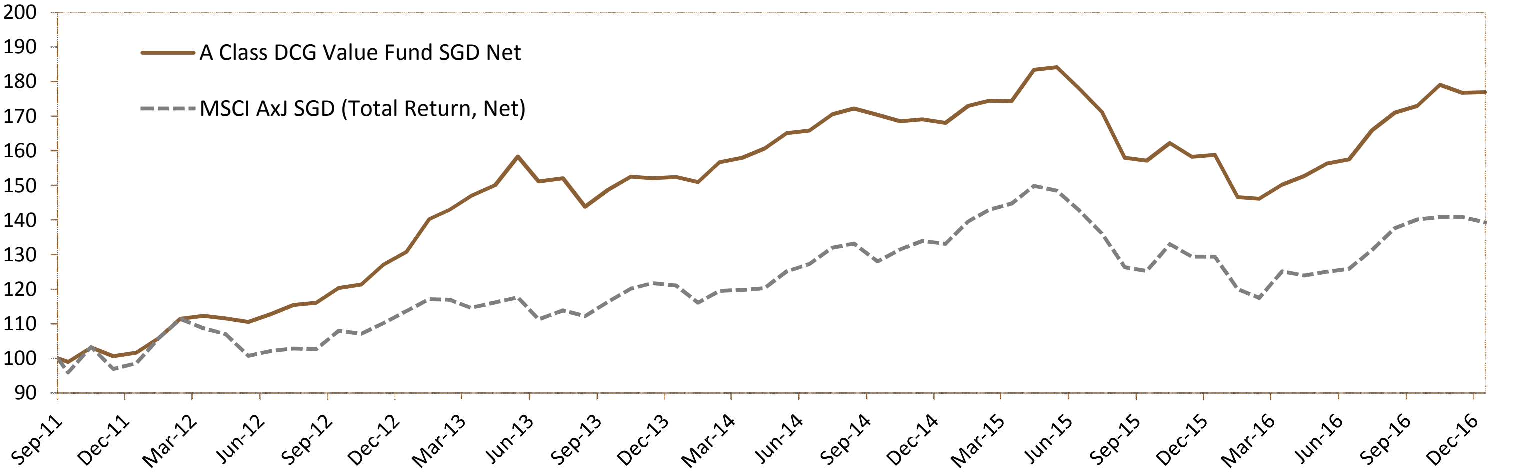
DCG Asia Value Fund

December 2016
NAV: SGD177.0 ('A' Class)

Fund Overview

The investment objective of the Fund is to achieve long term capital growth through investments primarily in publicly listed and traded stocks and shares of companies in Asia ex-Japan. The Investment Manager employs a value investing approach in managing the Fund. Using a bottom-up approach, it will seek to identify from within the above mentioned investment universe, attractive long term investment opportunities that the Manager reasonably believes adequately satisfy stringent selection criteria in terms of quality and valuations.

Cumulative Fund Returns SGD* VS MSCI AxJ SGD(1)



Monthly Net Returns*

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	MSCI AxJ YTD
2016	-7.7%	-0.3%	2.8%	1.6%	2.4%	0.7%	5.4%	3.1%	1.1%	3.6%	-1.3%	0.1%	11.4%	
MSCI AxJ	-7.2%	-2.2%	6.5%	-1.0%	0.9%	0.6%	4.4%	4.8%	1.8%	0.5%	0.0%	-1.1%		7.7%
2015	2.9%	0.9%	-0.1%	5.2%	0.4%	-3.3%	-3.9%	-7.7%	-0.5%	3.2%	-2.4%	0.4%	-5.5%	-2.8%
2014	-1.0%	3.8%	0.8%	1.7%	2.8%	0.5%	2.8%	1.0%	-1.1%	-1.1%	0.3%	-0.6%	10.3%	10.0%
2013	7.2%	2.0%	2.7%	2.2%	5.5%	-4.6%	0.6%	-5.4%	3.4%	2.6%	-0.3%	0.2%	16.5%	6.5%
2012	4.1%	5.3%	0.7%	-0.6%	-0.9%	2.0%	2.3%	0.6%	3.7%	0.8%	4.8%	2.9%	28.6%	15.3%
2011									-1.1%	4.2%	-2.4%	1.1%	1.7%	-1.4%
Inception to Date(2)													77.0%	39.3%

*Current year returns are unaudited. Past performance is not indicative of future results. References to the MSCI AxJ SGD index are based upon published results net of fund expenses, management fees and incentive reallocation. The net return shows an accrual of incentive allocation every month, although the fee is charged at year end. Based on an original investor subject to stated fees (i.e. 1.25% management fee and 12.5% incentive fee).

(1) MSCI Asia ex-Japan SGD Index (total returns, including dividends reinvested)

(2) Inception-to-date performance for SGD A Class and MSCI AxJ are computed from 16 September 2011, the date of Fund inception.

Statistical Analysis

Risk/Return(3)	The Fund	MSCI AxJ
Annualized Return	11.4%	6.5%
Standard Deviation	10.1%	11.9%
Sharpe Ratio	0.93x	0.37x
Sortino Ratio	1.60x	0.60x
Information Ratio	0.68x	N/A
Peak to Trough	-20.6%	N/A

(3) Since inception. Applicable to A Class shares only

Portfolio Concentration

No. of holdings	49
Top 10 holdings	29.8%
Top 20 holdings	51.6%

Fund Exposure

Country Exposure	
HK/ China	37.1%
Singapore	18.2%
Indonesia	10.3%
Sri Lanka	6.1%
Vietnam	5.4%
Taiwan	3.3%
Thailand	3.2%
Philippines	2.5%
Malaysia	2.0%
Cash	11.9%
Total	100.0%

Sector Exposure	
Industrials	15.6%
Consumer Staples	14.0%
Real Estate	13.2%
Information Technology	12.4%
Financials	12.3%
Consumer Discretionary	10.9%
Energy	5.9%
Materials	2.3%
Telco Services	1.4%
Cash	11.9%
Total	100.0%

Fund Details

Size (equities)[4]	
Small Cap (<US$1b)	34
Mid Cap (US$1b-$5b)	4
Large Cap (>US$5b)	11
Total	49

(4) Median market capitalization US$476 mil

Top 5 Holdings

Tiga Pilar Sejahtera Food
China Aviation Oil Singapore Corp
Kweichow Moutai Co
Luen Thai Holdings
Valuetronics Holdings

Fund Information

Domicile	Cayman Islands
Fund Administrator	Portcullis Fund Administration (S)
Custodian	Deutsche Bank AG, Singapore Branch
Fund Auditor	Ernst & Young Solutions LLP
Legal Counsel	Rajah & Tann LLP
Fiscal Year End	June 30th

Terms

Minimum Initial Investment	S$250,000
Minimum Subsequent Investment	S$100,000
Early Redemption Fee*	3% in 1st year; 2% in 2nd year; 1% in 3rd year
Redemption Frequency	Once a quarter at quarter-end NAV, with 1 month notice
Subscription Frequency	Once a month at month-end, with 1 week notice
Management Fee / Performance Fee	1.25% / 12.5%

**Retained in the Fund for Fund investors*

Contact Information

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Important Notice

Dear Investor,

Performance

The Fund's NAV rose 11.4% in 2016, beating MSCI Asia ex Japan Index's 7.7% total return[1].

For the quarter ended December, NAV rose 2.3% versus the Index's 0.6% decline.

As readers will recall, 2016 was a very volatile, challenging year which began with sharp falls in China's and global markets. In our region, the best performers were Thailand +19.8%, Indonesia +15.3%, Vietnam +14.8%, and Taiwan +11%, while China fared the worst with Shanghai Composite and Shenzhen Composite down 12.3% and 14.7% respectively.

Although our Fund is 'benchmark agnostic' and managed on an absolute – not relative – return basis, 2016 marked the fourth year out of five that we have outperformed the Index. Since inception, our NAV has soared 77.0% (net of all fees) against the Index's 39.3% total return.

Our patience with Luen Thai (held since 2013) bore fruit when Shangtex, a Shanghai-based textile and apparel manufacturer, made a takeover bid for the company in October. The ongoing offer, combined with special dividends, is worth HK$3.37 a share, substantially higher than the undisturbed price of HK$1.85 and far in excess of Luen Thai's HK$1 share price in mid-2016. The first stage of the transaction, involving the sale of certain businesses, has passed and we retain a position.

During the quarter, we watched with frustration Samsung Electronic's 20% surge after selling our shares last September. This despite well-publicised problems with Samsung Galaxy 7's exploding batteries as well as investigations into the group's possible involvement in the Choi Sun Sil affair – we appear to have committed an 'unforced error'. We invested in Samsung as it was undervalued not only in earnings (primarily mobile phones and DRAMs) but also on the basis of its many business assets. With persistent pressure from activist shareholders, Samsung's management is finally acting to unlock these values and the market appears to be taking heed.

Another disappointment that dragged the Fund's quarterly performance was DKSH's surprise announcement of significant receivables write-offs in its latest 3Q16 financial results. We checked with management to ascertain that this is a likely one-off, and will still hold the stock, especially after its 27% fall post-announcement.

In our September letter we updated on Malee Group, one of our best performers in 2016. In the 4th quarter, the stock surged another 48% on strong business results and inclusion in the MSCI Global Small Cap index. We took advantage of the run-up to trim our holdings as the stock price neared our estimate of its intrinsic value.

[1] Some readers have asked us why our quoted benchmark figure differs from peers' reported benchmark. We report the benchmark's total return, inclusive of dividends, whereas certain peers only report the same index's price return.

Annual Investors' Meeting

In October, we held our Annual Investors' Meeting. This is where we share with clients our thoughts on investments and take questions on some of the investment issues of the day.

The brief re-cap here is for those who missed the meeting. After reviewing our performance, Daniel shared for the first time DCG's Vision and Mission statements.

The DCG Vision

To be **R**eputed for delivering **S**uperior returns through a **D**isciplined process.

Our Mission (3Ss and 2Cs)

- Delivering **S**uperior investment performance for our clients and business partners;
- Carefully **S**tewarding capital entrusted to us and organising ourselves in a manner aligning our interests with our clients;
- **C**ontinually learning and reflecting on our investment mistakes, and striving relentlessly to improve our investment skills;
- Providing a **C**ollegial work environment affirming teamwork over a superstar culture;
- Humbly reflecting the **S**ingapore success factors of integrity, ethics, efficiency, and pragmatism.

For those unfamiliar with DCG's Investment Process, Daniel explained how we screen the market for potential investment candidates and the elaborate fundamental research and analysis that take place before admitting any new stocks into the portfolio.

We also shared some of our findings from recent business trips to China and Sri Lanka. Contrary to assertions made by a well-publicised American documentary on Zhengzhou (capital city of Henan Province, the 'Ghost City'), we saw a bustling one with rising property prices, traffic congestion, and buoyant demand for residential properties. The visit to Colombo reaffirmed our positive view of Sri Lanka's economic potential and long-term investment appeal.

The team also highlighted a few of our top holdings and the investment rationale behind them – Kweichow Moutai, China Aviation Oil, Malee Group, Tiga Pilar, Vinamilk, and Concepcion. We reiterated our positive long-term view of ASEAN markets – the ASEAN Economic Community is officially launched and expected to lead to greater intra-regional trade and investments in the coming years.

We also highlighted some poorer decisions such as our earlier investment in Lai Sun Development. Regular newsletter readers will know that we're just as happy sharing about our learning moments as we are about our winners. We sold the stock some time back and it continues to trade at a huge discount to asset value.

The experience taught us to be more careful about buying asset situations such as this and that, without a catalyst, undervaluation as severe as Lai Sun'a can persist for a long period.

Portfolio Updates

Valuetronics

Valuetronics is a Hong Kong-based integrated electronics manufacturing service provider (EMS). It has 2 major businesses: consumer electronics manufacturing (CE) and industrial commercial electronics (ICE).

CE produces goods like electric shavers, toothbrushes, and LED lighting. ICE products include label printers, access card readers, and networking devices.

We built our position in 3Q 2015 when the ex-cash PE was 1.5-2.0x and dividend yield was 9%. At that time, the market took a bearish view of Valuetronics's huge exposure to the low-end commodity LED business. We took a different view as it had been paring this business which was very working capital-intensive with low return on capital. With the reduction, the company's profit and cash flow will improve. We also found management to be prudent and cautious when making new capital investments. And, we see significant potential upside from its foray into the automobile communication and entertainment segments.

Although the stock gave us a total return of 45-50%, Valuetronics remains inexpensive at 3x ex-cash PE and 7% dividend yield.

Vinamilk

Vinamilk reported satisfactory preliminary FY16 results of 15% growth in sales and 20% in net profit. It has been gaining market share from smaller local producers in the liquid milk segment and from foreign players in powdered milk. Our recent checks show that Vinamilk's liquid milk and yogurts retail 6-10% below other local producers. For powdered milk, its products are 20-30% cheaper than foreign brands. As the dominant market player already offering products at the most competitive prices, Vinamilk is well-placed to raise prices, if needed, to defend its margins. Its stock price has fallen 19% from its August 2016 peak due to heavy selling by big foreign funds as well as the overhang from the incomplete divestment of State Capital Investment Corp's stake – the government stock auction in December 2016 enabled F&N, a major shareholder, to raise its 10.95% stake to 16.35%. The stock remains an attractive hold trading at 20x FY17 PER and 4.8% dividend yield.

Kweichow Moutai

We've held **Kweichow Moutai** for about two years. At a US$60 billion market cap, Kweichow is the world's second largest spirits manufacturer by market value after Diageo PLC. Kweichow's namesake Moutai has been China's leading brand of 'fire water' for centuries before the founding of the Chinese Republic. Despite the introduction of foreign spirits, Baijiu remains the spirit of choice for Chinese drinkers at social occasions and Kweichow continues to be the No. 1 baijiu brand. More recent launches of Moutai cocktails helped to reach out to a younger generation of Chinese drinkers.

Our position was built in 4Q 2014 at the trough of the last baijiu downcycle. Kweichow's typical retail price of RMB 800-1000 per half-litre bottle is easily 15-30% above other premium brands and 3-5 times above cheaper liquor. A case of 6 bottles has become a highly appreciated gift. Unsurprisingly, the 2012 anti-corruption campaign severely restricted the 'gifting' demand for Kweichow Moutai amid the general move towards less conspicuous consumption. Kweichow's distributors saw a severe cash crunch as inventory levels went from 1-2 months to 12. In many instances, this pushed Kweichow's retail price below the wholesale level.

Obviously, this wasn't good news for the manufacturer. 2015 saw Kweichow controlling production volume, and trimming its roster of distributors so that only the stronger ones remained. Fast forward two years, and distributor inventory appears to have recovered.

Kweichow is 65%-owned by Guizhou's local government. The anti-corruption campaign continues to be a risk to any company official who may be a target of the campaign — the Deputy General manager of Kweichow's parent was placed under investigation at end-2014. We expect this risk to persist.

Kweichow trades at a forward PE of 20x, 2.5% dividend yield, and has net cash on balance sheet of ~11% of market cap.

Tiga Pilar

In Indonesia, **Tiga Pilar** reported encouraging 9-month 2016 results with sales and net profit up 10.5% and 35.0% year-on-year respectively. The company's new strategy to widen its distribution network, combined with the recovery in underlying consumption demand in Indonesia, evidently helped. Tiga has also done a good job to improve overall margins by increasing sales of higher-margin products like instant vermicelli, economy rice brand Maknyuss, and snack noodles. Looking into 2017, we are optimistic about Indonesia's consumption demand growth and Tiga Pilar's earnings outlook. The minimum wage hike is likely to be 5-8% while Indonesian GDP is forecast to grow 5.2%, driven by government spending on infrastructure. Trading at 14x FY16 PER, the stock remains an attractive way to gain exposure to Indonesia's growing consumption demand.

Outlook

Donald Trump's US Presidential victory, his made-for-TV antics as well as controversial Cabinet appointees have raised questions over future US policies, especially regarding the US-China relationship. In this respect, initial signs are not encouraging, suggesting a much more confrontational approach.

Like the rest of the world, we will carefully observe developments after Mr Trump's inauguration on January 20. As Martin Wolf of the Financial Times put it: "The implications of the fact that the most powerful political figure in the world will have little interest in whether what he says is true are unknowable". While we cannot predict how things will pan out, we should, as prudent investors, prepare for potential scenarios, including military miscalculation in the South China Sea or perhaps a US-China trade war. But history has shown time and again that these brief moments of panic usually turn out to be excellent buying opportunities for value-seeking investors like us.

Trump politics aside, the US economy is widely expected to remain robust on expectations of tax cuts, infrastructure spending, and less regulation. Indeed, US stocks are trading at record levels. With a tightening labour market and fading disinflationary forces, US interest rates are set to rise further after last December's quarter-point hike. The US Dollar, which has already surged post-Trump's victory, may rise further, putting pressure on emerging market companies which have incurred sizeable dollar-denominated borrowings.

In China, the 19th National People's Congress will shed light on the direction for SOE reforms, anti-corruption measures, and the real estate market. Things to watch for include capital outflows, Renminbi weakness, and the domestic Chinese debt market.

We continue to believe in the Asia growth story and will focus our efforts on finding good businesses which also offer us a comfortable safety margin. As always, we remain watchful for disruptions that may emanate from geo-political developments or other macro trends such as e-commerce.

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