DCG capital

DCG Asia Value Fund

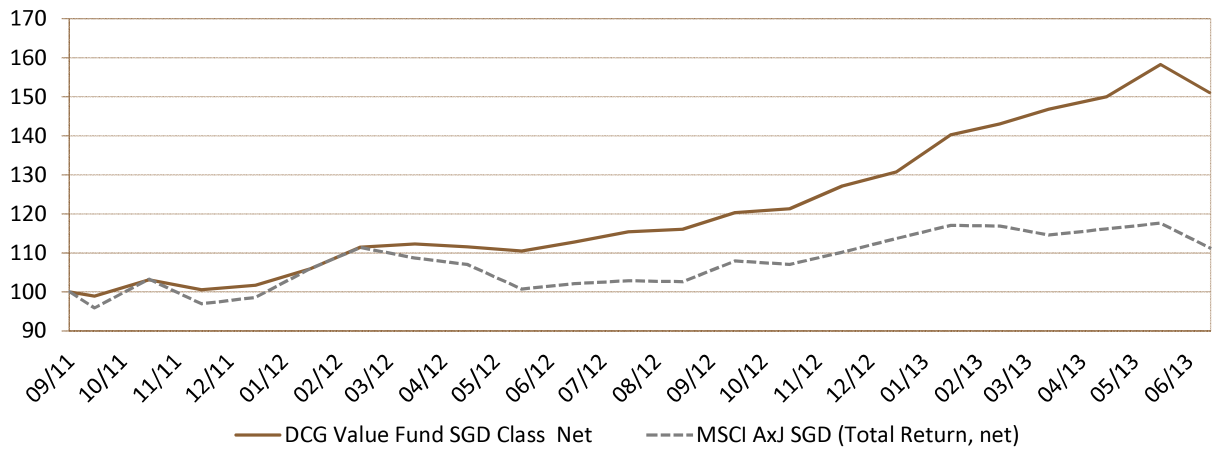
At 28/6/2013
Net NAV/Share
S$151.09 (SGD Class)
US$119.17 (USD Equivalent)

Fund Objective and Strategy

The investment objective of the Fund is to achieve long term capital growth through investments primarily in publicly listed and traded equities and equity-linked securities of companies from Asia ex-Japan countries. 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.

Fund NAV and Performance (measured in SGD, net of all fees)

Fund NAV SGD Class (since inception)



	2011			2012			2013		
	NAV	Fund Rtn	BM Rtn	NAV	Fund Rtn	BM Rtn	NAV	Fund Rtn	BM Rtn
Jan				S$105.88	4.1%	7.4%	S$140.26	7.2%	3.0%
Feb				S$111.49	5.3%	5.2%	S$143.02	2.0%	-0.1%
Mar				S$112.29	0.7%	-2.4%	S$146.85	2.7%	-2.0%
Apr				S$111.57	-0.6%	-1.5%	S$150.05	2.2%	1.4%
May				S$110.52	-0.9%	-5.9%	S$158.34	5.5%	1.3%
Jun				S$112.78	2.0%	1.4%	S$151.09	-4.6%	-5.4%
Jul				S$115.38	2.3%	0.7%			
Aug				S$116.05	0.6%	-0.2%			
Sep	S$98.95	-1.1%	-4.1%	S$120.33	3.7%	5.1%			
Oct	S$103.09	4.2%	7.7%	S$121.31	0.8%	-0.8%			
Nov	S$100.58	-2.4%	-6.1%	S$127.10	4.8%	2.9%			
Dec	S$101.68	1.1%	1.7%	S$130.79	2.9%	3.1%			
YTD		1.7%	-1.4%		28.6%	15.3%		15.5%	-2.1%

Fund Details

Portfolio Concentration

No. of holdings*	53
Top 10 holdings	23.2%
Top 20 holdings	40.6%

**Holdings include two short duration bonds*

Size (equities)

Small Cap (<US$1b)	31
Mid Cap (US$1b-$5b)	13
Large Cap (>US$5b)	7
Total	51

Top 5 Holdings

Guocoland Bond 4% Jan 2014
OUE Bond 3.36% Sep 2013
Arwana Citramulia Tbk Pt
Guocoleisure Ltd
Sinarmas Land (Warrant)

Country Exposure

Singapore	25.9%
HK/ China	22.7%
Indonesia	8.9%
Malaysia	8.4%
Philippines	4.0%
Sri Lanka	2.5%
Thailand	1.5%
Korea	1.5%
Vietnam	1.2%
Cash	23.4%
Total	100.0%

Sector Exposure

Financials	25.8%
Industrials	18.0%
Consumer Discretionary	13.9%
Consumer Staples	10.4%
Information Technology	5.7%
Energy	2.8%
Cash	23.4%
Total	100.0%

Risk / Return (since inception, measured in SGD, net of all fees)

	Annualized Return	Annualized Std. Dev	Sharpe Ratio (RFR = 2%)	Sortino Ratio	Information Ratio	Peak to Trough
The Fund	26.0%	12.7%	1.89x	6.82x	1.87x	-4.6%
MSCI AxJ	6.2%	17.9%	0.23x	0.49x	N/A	N/A

Valuation

	Trailing P/E	Trailing P/B	Indicative Dividend Yld	Median Market Cap (US$ mil)
The Fund*	11.3x	1.4x	2.6%	571
MSCI AxJ	11.5x	1.4x	2.7%	N/A

**DCG Asia Value Fund: valuation is calculated for the invested portion only.*

Fund Information

Domicile: Cayman Islands

Fund inception date: 16/09/2011

Fiscal Year End: 30 June

Subscription Frequency: Once a month at month end with 1 week notice

Redemption Frequency: Once a quarter at quarter end NAV with 1 month notice

Valuation Frequency: Once a month

Fund Manager: DCG Capital Pte Ltd

Fund Administrator: Portcullis Fund Administration (S) Pte Ltd

Minimum Initial Investment: S$250,000

Minimum Subsequent Investment: S$100,000

Management Fee: 1.25% p.a.

Performance Fee: 12.5% of appreciation in NAV subject to high water mark

Early Redemption Fee: (Retained in the Fund)

3% in 1st year; 2% in 2nd year; 1% in 3rd year

Custodian: Deustche Bank AG, Singapore Branch

Legal Counsel: Rajah & Tann LLP

Fund Auditor: Ernst & Young Solutions LLP

Tax Advisor: Ernst & Young Solutions LLP

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Important Notice

Report for Financial Year ended on 30th June 2013

Performance for April – June 2013 Quarter

Asian stock markets were mostly weaker for the quarter ended June after the Fed Chairman Ben Bernanke, in his May 22 statement, hinted that the Fed may begin QE "tapering" soon if the US economy continues to recover and the rate of unemployment approaches the Fed's target. This, combined with further indications of a sharper slowdown in China, led to a sharp sell-off of fixed income and stock markets, especially in emerging markets.

During the early part of June, we reduced our exposures in Hong Kong, Singapore, Indonesia, Malaysia and Philippines, raising cash levels further to about 25%.

The Fund's Net NAV rose 2.89% to S$151.09 over the quarter. In comparison, the benchmark MSCI Asia ex Japan index fell 4.25% (measured in SGD).

Performance for the year

After rising continuously for 11 months since July 2012, the Net NAV of the Fund fell 4.5% in the month of June. Whilst this is the biggest monthly decline in the Fund so far, it coincided with a 6% decline in the MSCI Asia ex Japan benchmark index.

The Fund's Gross NAV and Net NAV ended the financial year at S$ 156.57 and S$ 151.09 respectively, which is 36.6% and 34.0% higher than the Net NAV of S$ 112.78 on 30th June 2012. This compares quite favourably against the benchmark MSCI Asia ex Japan's net total return of 8.9% in Singapore Dollars terms over the closing level of 30 June 2012.

Within the region, there was a marked difference in performance between North Asian markets and the ASEAN 5 (Indonesia, Malaysia, Thailand, Philippines, and Vietnam). Of these, Philippines, Thailand, and Indonesia were the standout performers, each rising more than 20% for the year. In contrast, Korea's KOSPI was the worst performer gaining only 0.5% while Hong Kong, Taiwan and Singapore showed moderate gains of 7.0%, 10.5% and 9.4% respectively.

As of end June 2013, the Fund was 76.6% invested in 52 stocks spread over 10 markets.

At the end of each financial year, crystallization of the manager's performance fees and equalisation credits will take place. June's Net NAV of S$ 151.09, being higher than the High Water Mark (HWM) of S$112.78, becomes the new HWM for the financial year ending 30 June 2014.

Portfolio Review

For each financial year, we review the portfolio performance and look at the major contributors and detractors from the total returns.

In terms of contribution by markets, the Fund's 38% gross return for the year was largely attributed to Indonesia, Singapore and Hong Kong/ China. The rest - Malaysia, Philippines, Thailand, Sri Lanka and Vietnam together contributed about a fifth of the Fund's returns.

In terms of contribution by strategy "buckets", about half the returns were contributed by the aggressive growth and steady growth buckets with the rest fairly even spread out among the yield, cyclical, asset and moat buckets; special situations being the least important for this period.

For the 12 months ended June 2013, the **Top 5 contributors** were:

Arwana Citramulia (Arwana) is the second largest ceramic floor tiles producer in Indonesia with a reputable brand name and a market share of over 15%, just a bit lower than the leader's 17% market share. Over 80% of Arwana's products are low-end, mass market products targeting at home building and renovation demand in the rural areas. With rising wages across Indonesia, including the introduction of minimum wage regulations, Arwana's business is likely to benefit from rising home improvement demand.

Among the ceramic floor tile manufacturers in Indonesia, Arwana is the lowest cost producer, achieved through the use of newer and more energy efficient machines and improved production techniques that promote the more efficient use of glazing and clay. Competition from imported tiles has little effect on Arwana as these usually target the high end segment and need to be sold at higher prices to justify the high logistics costs as well as the additional import duty levied. Despite hiking average selling prices by almost RP2,500/sqm since 3Q12, Arwana's selling price is still US$1/sqm lower than its nearest Thai peer, Dynasty Ceramics.

Arwana's revenues, earnings and free cashflows have grown strongly over the past 10 years at an average compound annual rate of 19%, 23% and 15% respectively. Strong cash flows generated had enabled it to reduce its debt ratio from 95% in 2008 to only 11% in 2012 and increased dividend payout from 8.5% to 47%.

The company will soon commence operations of its new plant in Palembang, which will increase overall production capacity by 7.5%. Arwana has also recently installed digital printing machines in its manufacturing plants, the only ceramic tiles producer to use digital printing for the low-cost segment.

Our first purchase of Arwana's shares was in March 2011 when it traded at IDR 500 on a PE ratio of about 8x trailing 12 month earnings (TTM). The stock has been re-rated sharply upwards to IDR 3200 at 23x forward earnings, and we have been "top slicing" our position as the margins of safety compressed. Recent 1Q13 results indicate strong top line growth of 36% while lower financing cost and improved margins contributed to a 122% rise in net profits after tax. The company recently had a 4 for 1 stock split.

Ezion develops, charters, and owns a fleet of liftboats which are used to support Oil & Gas production platforms in offshore oil fields. From only 8 liftboats/service rigs in 2011, Ezion has grown to over 20 liftboats/service rigs. When we first looked at Ezion, the stock was trading at a PER of 5 to 6x with all of its charter contracts and funding locked in, giving us clear visibility to earnings and revenues. There was also a shortage of liftboats in Asia and African waters where previously, inefficient workboats were used to service the offshore oil rigs. Ezion saw a big opportunity here and went aggressively to fill this gap in the market place.

In its most recent results ending March 2013, top line grew 79% and operating profit grew 261% boosted by strong contributions from new charters of liftboats/service rigs. Due to the rapid growth and expansion of its fleet as well as the capital intensive nature of the business, the company's gearing is expected to increase to more than 100%. Ezion has also been issuing equity/perpetual securities over the recent months to help fund its business expansion.

The stock price has risen over the last 18 months from $0.40 to $2.37. Because of the cyclical nature of the stock, we have "top-sliced" our exposure to Ezion as its price approached our target. The stock now trades at a still reasonable PER of 12.5x. The order book is now US$ 445 million and Ezion continues to regularly report new orders from oil companies in the region as well as the North Sea and the Gulf of Mexico

Malindo Feedmill (Malindo) is the third largest producer of poultry feed and day old chicks (DOC) in Indonesia with a market share of 8% in poultry feed and 9% in DOC. Malindo's revenue and net profits per share have grown at 5 year CAGRs (Compound Annual Growth Rates) of 25% and 34% respectively, driven by growing demand for chicken meat in Indonesia

Chicken meat is the cheapest source of animal protein in Indonesia where per capita consumption is 6 to 7 kg per year, much lower compared to Malaysia (37kg/capita) and Thailand (12kg/capita). With the Indonesian government's restrictions on imported chicken, the current domestic supply of chicken in the country can barely meet the increase in demand, as every 1 kg increase in per capita consumption translates to additional 240 thousand tons of broiler that have to be produced each year.

Given the strong demand for its products, Malindo has embarked on an aggressive expansion plan and is currently constructing two feedmills in Central Java and Makassar to increase feed production capacity by about 23% by mid-2014. The company is also expanding its breeding farm division by constructing a new farm at Makassar, which will increase total capacity by up to 16%. Malindo also decided to go into the more profitable and less volatile downstream market to tap into the rising demand for processed foods, such as the chicken nuggets and sausages (under the brand "Sunny Gold"). To achieve this goal, a new food processing factory in Cikarang is expected to commence operations this year and to contribute about 3% of total revenue in its first year of operations.

We first purchased Malindo's shares at about IDR 1000 when they traded at 8x trailing earnings, which was at a huge discount to the mid to high 20x trailing PER its competitors CP Indonesia and Japfa Comfeed were traded at. The stock is currently trading at IDR 3500 but still at a reasonable PER of 14x, given its growth potential.

Tiga Pilar Sejahtera Food is an Indonesian operator of rice mills and a producer of snack food and dried noodle, catering to the low to mid income segment of the market. The company is now the largest rice miller in Indonesia owning over 40 rice brands. It also has the largest market share in the dried noodle business. Products are distributed through both modern and traditional trade channels.

Indonesians rely on rice and noodles as their main staple food source. As wages and incomes rise, Indonesians are consuming more affordable "luxuries" like snacks, biscuits, and candy. Tiga Pilar is well positioned in these three segments as evident from recent results.

For the financial year 2012, the company reported a 56% y-o-y increase in sales. Rice mills sales doubled from Rp726 billion in FY11 to Rp1.6trillion in FY12. Snack food sales jumped from Rp62 billion in FY11 to Rp286 billion in FY12 following the acquisition of Unilever's Taro brand. Dried noodle and vermicelli sales posted 25% y-o-y growth driven by volume growth in the traditional products and the expansion to corn vermicelli products. Operating profit margin of the whole group remains at a healthy level of 15.5% and net profit margin improved from 8.5% a year ago to 9.2%.

We started investing in Tiga Pilar at IDR 600 when it was traded on 8.6x trailing PER and 1.1x price to book. Despite the share price appreciation over the last year to IDR 1200, we think the stock still offers good value at PE of 15x given the company's growth potential.

Luen Thai Holdings is a Hong Kong listed 30 year-old garment and small leather goods contract producer for international brands with production facilities in China, Philippines and Cambodia. Luen Thai's main customers include Uniqlo, Adidas, and Polo for garment, and Coach for small leather goods. Being a contract manufacturer, its business model is a cost-plus model which generates relatively stable earnings for the group. In April, the company announced that one of its major clients has committed to place a significant increase in orders. During the recent Global Financial Crisis, many garment makers in China went under. The resulting industry consolidation gives surviving manufacturers like Luen Thai better pricing power. Also, with its diversified production facilities in the Philippines and Cambodia, where the labor costs are significantly lower than in mainland China, Luen Thai was better able to mitigate the sharp increase in operating costs in its China operations. Meanwhile its increased production in small leather goods for Coach and high end garments will further improve its net margin. We started accumulating Luen Thai at the beginning of 2013 at HK$ 1.2 when it was traded at 6x trailing FY11 PE and 8% dividend yield. The stock has since been rerated to about 10x PER and now trades at HK$ 2.9.

The **Top 5 detractors** from FY June 2013 performance were:

Amtek is a metal stamping specialist that makes parts for the Automobile and PC market. The company was hurt by slowing automotive sales in Europe and the structural decline of the global PC market. Margins have declined due to labour cost increases in China. We sold our position in Amtek in November 2012 incurring a small loss.

Springland and Aeon Stores

We cut our positions in Springland and Aeon Stores earlier this year as we expected that an increasingly competitive business environment in the department store and supermarket sector in China would erode profit margins and sales growth.

As mentioned in one of our previous newsletters, department store and supermarket operators like Golden Eagle and Intime have announced aggressive expansion plans which together would lead to a huge increase in floor space over the next 3-5 years. Besides, an abundant supply of new shopping malls in the big cities will further intensify competition for popular brands in the malls, squeezing the operators' commission rates and direct sales margins. To give investors an idea of the shopping malls boom in China, according to a China Daily article in Jan 2013, the country is expected to add over 177 million sqm of floor space to reach 4,000 shopping malls by 2015, an increase of over 40% from 2,812 shopping malls in 2011. Chengdu, the capital city of Sichuan province, is expecting 100 shopping malls or over 10 million sqm GFA equivalent to be completed within the next 2 years.

Moreover, operating costs in China are getting more expensive with labor costs rising about 10 to 13% per annum. Other headwinds facing the department stores in China and Hong Kong come from the weaker luxury sales across the country following the Chinese government's anti-graft campaign. This was evidenced in the 20% y-o-y decline in luxury sales in the first 5 months of 2013 for Golden Eagle while other luxury goods retailers like Oriental Watch, Sparkle Rolls have also issued profit warnings.

With slower same-store-sales growth and thinner profit margins likely to prevail in the near to medium term, valuation of the sector has contracted from a PE ratio of mid-20x at end 2011 to the low teens as of end June 2013.

Jiangsu Expressway
We purchased Jiangsu Expressway expecting steady growth in traffic volume and for its attractive dividend yield. Its key assets are located in the Yangtze Delta region that connects 6 big and mid-sized cities.

In July 2012, new regulations were introduced, and the Central government removed 3 toll stations from Jiangsu Expressway. In Aug 2012 the government removed the toll for all small passenger cars on all public holidays. Both of these policies resulted in loss of revenue to Jiangsu Expressway.

With the change in fundamentals we sold our position in October 2012 for a small net gain after factoring in dividends received.

DBA Telecom is a maker of mobile phone prepaid cards and vending machines in China. It also makes telephone booths and fibre-to-the-home products. We had liked the stock for the growth potential of the prepaid vending machines which also provides recurring income from the sale of mobile top up cards in China.

DBA's unaudited FY 2012 results in Mar 2013 showed top line grew 33% and profit grew 32% while dividend per share was increased by 20%. Unfortunately, in May, management announced that the company's annual report will be delayed as the external auditor needed more time to verify the existence of its 9,000 vending machines in China. There was also a report by Apple Daily that the founder, Yu Long Rui, had pledged his shares and was in financial difficulty. We subsequently sold down our position in this stock to only about 0.1% of our portfolio before the stock was suspended pending the release of its annual report.

As at June 2013, the stock remained suspended and in the absence of further information, we have opined and the Fund Administrator has concurred, that we value the position at its last transacted price of HK$ 2.03 per share.

New Additions in the last 12 months

During the financial year, we have added a number of new investments, some of which we would like to discuss briefly here.

Yong Nam, established more than 40 years ago, specializes in structural steel and owns one of the largest stocks of strutting assets in Singapore. Strutts provide vital structural support for underground works to prevent the walls from collapsing inwards.
Its current market capitalisation is equivalent to the value of its strutting assets. This gives shareholders a free call option on its potential Myanmar airport and power plant projects. The stock looks undervalued trading at 7x PER and 1.1x P/B.

Yong Nam also has a strong presence in the Hong Kong and ASEAN construction sector and is well placed to benefit from the expected infrastructure boom in the region.

Silverlake Axis (Silverlake) is a leading provider of universal integrated banking solutions to major financial institutions in Asia and the Middle East. Its customers include top banks in Southeast Asia like UOB in Singapore, Bank Mandiri and Bank Rakyat in Indonesia, Siam City Bank in Thailand, CIMB, Hong Leong- EON Bank and Affin Bank in Malaysia.

Core banking software is the central nervous system of a bank, managing channels, accounts, products, deposits, loans and overall General Ledger functionalities across the bank. To handle mission critical functions such as these, banks have extremely high requirements on their core-banking systems in terms of stability and reliability. The switching cost from one core banking system to another is very high, creating high barriers to entry and stickiness in relationship between financial institutions and core-banking solution providers. With a large customer base, Silverlake has enjoyed a steadily growing recurring maintenance revenue stream with further upside from new system installation/integration and software upgrade projects.

During FY12, Silverlake successfully implemented core-banking systems for CIMB in its Thailand and Singapore operations and completed two major upgrade projects for two Singapore banks and a credit card solution for a North Asian customer. Revenue for FY12 grew over 30% y-o-y from RM305 million in FY11 to RM400 million, of which maintenance revenue was at RM147 million or 37% of total revenue. Net profit of the group reached RM162 million, 41% higher than the year before. As of 31 Dec 2012, Silverlake's order backlog stood at approximately RM420 million while post development work for existing customers may amount to RM200 million for FY13.

We like Silverlake for its position as the leading provider of core-banking solutions in South East Asia. Big banks in emerging economies like Indonesia and Vietnam will need to upgrade their core banking systems in order to meet stricter compliance requirements and to cope with the huge amount of transactions resulting from fast growing demand for banking services. Established banks in Singapore and Malaysia are also likely to expand their regional networks, and hence would require universal, complex, yet reliable and stable core banking systems. Although the stock is not exactly cheap, trading at 18x PER, we see exciting growth opportunities for Silverlake Axis in the region in the years ahead.

Sarin Technologies (Sarin) develops, manufactures and sells equipment for all stages of the diamond and gemstone grading, cutting, polishing, and certification process. Sarin plays a key role in the diamond cutting industry helping to improve the accuracy with which diamond cutters assess the potential of rough stones and optimizing their values.

Previously, the process of assessment took hours or even days, requiring small "windows" in the rough stone to be opened, polished, and submitted for assessment, increasing the risk of error or theft. Sarin's technology revolutionized the entire process through its proprietary computer software, advanced mathematical algorithms, three-dimensional modeling, laser systems and precision mechanics. Complete measurements of a rough stone, its imperfections and all possible polished stones that can be derived from it can be obtained in seconds without the need to make a single cut.

Domiciled in Israel and listed on the Singapore Stock Exchange, the company's products range from assessing rough stones, to the cutting, polishing and grading of cut stones, through to inspecting, inscribing and certification of final polished stones. Sarin's technological strengths become apparent when compared against competitors' products, which are affected by issues including sensor saturation resulting in inaccurate readings and higher rate of errors. Sarin's products, such as its Galaxy™ family of systems, are used as primary measuring systems by highly-regarded institutions and laboratories, including Antwerp-headquartered International Gemmological Institute, Japan's Central Gemmological Laboratory and the European Gemmological Laboratory.

Sarin has an impressive track record with per-share revenue, earnings and free cash flows growing at 10 year CAGRs of 17%, 16% and 10% respectively. Balance sheet is strong with debt to equity of less than 3%. In its most recent results for Q1 13, increasing penetration of its Galaxy™ family of systems have helped boost the recurring component of revenues to nearly 30%.

Recent developments at the company include initiatives to establish Sarin as the industry standard for measuring light performance characteristics of gemstones, such as the '4Cs' (Carat, Cut, Clarity and Colour), by globally certifying and identifying polished diamonds. These initiatives would further provide the company with strong recurring revenues as about five million polished diamonds are certified for the 4Cs annually.

Globally, demand for diamond jewellery had been relatively robust even through the Global Financial Crisis, and had since been growing at an average of over 10% annually. The United States, China and India together account for over two-thirds of the diamond jewellery market. Growth in diamond sales in the US, the world's largest diamond jewellery market, far outstripped its GDP growth. Demand growth from China and India had been increasing at over 15% in each country in recent years.

First Pacific was established in 1981 by Anthoni Salim's father, the late Liem Sioe Liong. It started as a financial services provider in Hong Kong under its original name Overseas Union Finance Limited. Over the years, First Pacific has divested its interest in financial services and focused on infrastructure and consumer assets in ASEAN.

First Pacific's biggest asset is a 25% stake in PLDT (Philippines Long Distance Telephone Company) which is the largest mobile operator in the Philippines with 71 million and 3.1 million mobile and broadband subscribers respectivey. It acquired the No. 3 operator, Digitel, in 2011, resulting in a duopoly market in the Philippines.

First Pacific also owns a 56% stake in Metro Pacific Investment Corp which is listed on the Philippines Stock Exchange. MPIC owns a water distribution, toll road, and power distribution business in the Philippines. Recently it acquired Pacific light, the first LNG plant in Singapore with a capacity of 2x 400 MW turbine. Philippines infrastructure projects offer attractive rates of return for investors like First Pacific as the government needs the private sector to help the country's infrastructure keep up with fast economic growth.

In Indonesia, First Pacific owns a 50% stake in Indofood, which owns plantations (Palm Oil, Rubber, and Sugarcane), consumer food brands and Bogasari (flour). Indofood has a strong distribution network for its various consumer products, allowing it to capitalize on rapid consumption growth in Indonesia.

First Pacific's RNAV has been growing consistently over the years and is now estimated to be about HK$ 15. The stock is trading at HK$ 8.70 – quite a steep discount to RNAV.

Sinarmas Land is a Singapore-listed property company controlled by the Widjaja family, with assets in Indonesia, Singapore, Malaysia and China. The major assets of Sinarmas Land includes a 49.9% stake in the Jakarta-listed developer, Bumi Sepong Damai (BSD), 50% stake in industrial estate Kota Deltamas, 128,000 sqft of retail and office space at Orchard Tower in Singapore, and 9.5 million sqft of resort land and a 330 room five-star hotel at Palm Resort, near Senai, Johor, Malaysia.

Bumi Sepong Damai is one of the largest property developers in Indonesia with a land bank amounting to 39 million sqm booked at an average cost of IDR270,000/sqm or S$35/sqm. BSD's biggest development at Bogor and Tangerang called BSD City, has a remaining undeveloped land bank of 23million sqm. With banks in Indonesia offering historically low mortgage rates (6.7 to 7.5% fixed for 2- 3 years in 2011 and 2012), property sales were very strong in the past two years. Recent transactions in BSD City were at IDR2.5 million/sqm (S$310/sqm) or higher for landed houses. Based on a conservative assumption of average selling price of S$150/sqm for BSD's land bank, Sinarmas Land's 49.9% ownership in BSD is worth at least S$0.64/share. In May 2013, the company announced the plan for the IPO of Kota Deltamas, which could potentially raise US$200-US$300 million. Kota Deltamas owns 3,000 ha of industrial and commercial land in Cikarang, about 37 kilometres from Jakarta. Using a conservative assumption of IDR 1 million/ sqm for Kota Deltamas project, Sinarmas' 50% stake in Deltamas is worth another S$0.30 per share. Combining with their investment assets in Singapore and Malaysia and their net cash of S$387 million, we believe the stock is worth at least S$1.12/share. We started accumulating Sinarmas Land's warrants at S$0.28/warrant (strike price at S$0.10), which was at a 66% discount to our conservative RNAV calculation. The warrant has since appreciated to S$0.48/warrant, narrowing the discount to about 48%.

Investment Outlook & Strategy

The US economy appears to be on a steady, albeit modest, growth path, with consensus estimates for GDP growth at about 2% this year. The improving state of the economy prompted the Fed Chairman to state publicly for the first time that its US$ 85 billion a month QE program could begin to “taper” soon. Both the bond and equity markets reacted negatively with US Treasury 10 year bonds yields rising from 1.6% to 2.7%. Emerging markets were especially hit hard on fears of a mass exodus of capital funds from these markets. June’s stronger than expected nonfarm payroll data has reinforced market fears that tapering could indeed happen as early as September.

On the other hand, Europe is still struggling with massive unemployment, high fiscal deficits, and recessionary conditions in almost every Eurozone economy, Germany being the notable exception. The QE taper induced rise in UK and European yields prompted the Bank of England and European Central Bank to break with tradition and come out with forward guidance that interest rates would remain low for an extended period of time. This unexpected development triggered a rise in European equities.

Over in China, the markets had a brief experience of a credit crunch in late June when the People’s Bank of China withheld from providing short term funding and the Shanghai interbank rates shot up to 13.4%. This caused the Shanghai Stock Index and the Hang Seng Index to fall by more than 6% before the PBOC restored calm with some reassuring statements. Nevertheless, the intent seems clear – to send out a warning to banks and financial institutions to be careful and not presume on the Central Bank to bail out every reckless lender.

Recent statistics on PMI and trade data also point to a slowing Chinese economy. The newly installed leadership is attempting to clean up the system not only by curbing corruption and lavish gifting and entertainment, but also by reining in excessive credit growth and the dangerous “shadow banking” system which by some estimates have grown to US$ 3.7 trillion or 43% of GDP. President Xi Jin Ping was reported to have instructed Communist party officials not to focus on growth alone, but on quality and sustainability. It seems unlikely that the Chinese economy, now the world’s second largest, will grow at the expected 7.5% to 8.0% range, but probably at around 7.0% instead.

Against this backdrop, the other Asian economies will also be likely to grow at a slower pace. Within the region, the South East Asian economies of Indonesia, Philippines, Malaysia, and Thailand should continue growing at a relatively faster pace due to stronger domestic demand and more favourable demographics. In its latest World Economic Outlook Report, the IMF has revised down the growth forecast for the ASEAN 5 by 0.3% to 5.6%. In contrast, Korea, Taiwan, Singapore, and Hong Kong, being more mature and export driven, will likely experience sluggish growth in the 1.4% to 3.0% range.

After the recent corrections, stock market valuations in Asia ex Japan have adjusted to the lower end of historical averages. The benchmark MSCI Asia ex Japan Index is trading at PER of 11.5x and 1.4x book with the ASEAN (ex-Singapore) markets trading much more expensively than the more developed North Asian markets.

Market	Index	P/E (X)		P/B (X)	Div/Yield (%)
		Trailing	2013E	Trailing	2013E
India	SENSEX	17.6	14.1	2.7	1.7
China	HSCEI	7.8	7.1	1.2	4.4
Hong Kong	HSI	9.9	10.2	1.4	3.8
S. Korea	KOSPI	15.3	9.8	1.0	1.3
Taiwan	TWSE	19.8	15.2	1.7	3.0
Thailand	SET	17.0	13.8	2.4	3.3
Philippines	PCOMP	19.8	19.4	3.0	2.1
Malaysia	KLCI	17.1	16.7	2.4	3.1
Singapore	FSSTI	13.2	14.5	1.4	3.3
Indonesia	JCI	19.0	15.4	2.9	2.0
MSCI Asia ex Japan	MXASJ	12.0	11.4	1.5	2.7
S&P 500	SPX	16.2	15.2	2.5	2.1
MSCI Europe	MXEU	18.4	13.0	1.7	3.7
MSCI Japan	MXJP	24.9	15.5	1.4	1.8

Source: Bloomberg - Data is as of 18 July 2013

We have raised cash levels to unusually high levels as we've turned cautious for the time being. Our chief concern is the possibility that the interest rate cycle has turned and the uncertainty of how fast and how high bond yields may rise. The rapid deceleration of the Chinese economy is also a source of concern, compounded by fears of an implosion of the shadow banking system as the authorities seek to rein in excessive credit growth. We also cannot discount the possibility of a renewed flare up of the Eurozone debt crisis although the "Troika" have so far demonstrated remarkable determination in dealing with the problem.

At the same time, we should not just focus on the things that can go wrong. The possibility of more benign types of scenarios occurring should not be ignored. Furthermore, many of the macro risks are already well flagged and thus likely to have been discounted to some extent already.

Four years into the Euro debt crisis, things may start to improve in the periphery. Abenomics may well succeed in reviving growth in the Japanese economy and indeed the results so far have been encouraging. And China, given its one party structure and huge foreign reserves, may be able to engineer a softer landing and begin the process of rebalancing its economy away from an investment led to a more consumption driven one.

As long term value investors, we rely very much more on a bottom up approach, seeking out fundamentally attractive and more resilient companies that can weather the vagaries well. We will deploy the cash over the coming months as we identify such stocks that also meet our other strict investment criteria. We still like the ASEAN markets as a long term fundamental growth play, but are wary of overpaying given the relatively high multiples although the recent market corrections have brought valuations down a few notches. Having been a laggard for the last 3 years, we are also finding interesting values emerging out of Hong Kong and China and we may increase our allocation here.