DCG Asia Value Fund

At 28/03/2013
Net NAV/Share
S$146.85 (SGD Class)
US$118.36 (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 (net of all fees)

	Fund NAV SGD Class	SGD Class 1M Return	MSCI AxJ Net SGD 1M Return	Fund NAV USD Eq.	USD Eq. 1M Return (%)	MSCI AxJ Net USD 1M Return
Sep-11	S$98.95	-1.1%	-4.1%	US$75.68	-6.1%	-8.7%
Oct-11	S$103.09	4.2%	7.7%	US$83.01	9.7%	12.0%
Nov-11	S$100.58	-2.4%	-6.1%	US$78.45	-5.5%	-8.3%
Dec-11	S$101.68	1.1%	1.7%	US$78.39	-0.1%	0.6%
Jan-12	S$105.88	4.1%	7.4%	US$84.15	7.3%	10.8%
Feb-12	S$111.49	5.3%	5.2%	US$89.15	5.9%	6.0%
Mar-12	S$112.29	0.7%	-2.4%	US$89.28	0.1%	-3.1%
Apr-12	S$111.57	-0.6%	-1.5%	US$90.17	1.0%	0.0%
May-12	S$110.52	-0.9%	-5.9%	US$85.75	-4.9%	-9.6%
Jun-12	S$112.78	2.0%	1.4%	US$89.15	4.0%	3.0%
Jul-12	S$115.38	2.3%	0.7%	US$92.66	3.9%	2.6%
Aug-12	S$116.05	0.6%	-0.2%	US$93.03	0.4%	-0.5%
Sep-12	S$120.33	3.7%	5.1%	US$98.04	5.4%	7.0%
Oct-12	S$121.31	0.8%	-0.8%	US$99.41	1.4%	-0.3%
Nov-12	S$127.10	4.8%	2.9%	US$104.15	4.8%	2.8%
Dec-12	S$130.79	2.9%	3.1%	US$107.10	2.8%	3.1%
Jan-13	S$140.26	7.2%	3.0%	US$113.34	5.8%	1.7%
Feb-13	S$143.02	2.0%	-0.1%	US$115.48	1.9%	-0.1%
Mar-13	S$146.85	2.7%	-2.0%	US$118.36	2.5%	-2.2%
2012		28.6%	15.3%		36.6%	22.4%
YTD		12.3%	0.8%		10.5%	-0.7%
Since Inception (16 Sept 2011)		46.8%	14.6%		46.9%	14.5%

Country Exposure

HK/ China	30.7%
Singapore	23.0%
Indonesia	12.9%
Malaysia	7.8%
Philippines	4.8%
Thailand	2.8%
Sri Lanka	3.0%
Korea	0.6%
Vietnam	0.7%
Cash	13.6%
	100.0%

Sector Exposure

Consumer Staples	17.8%
Financials	19.8%
Consumer Discretionary	16.6%
Industrials	16.4%
Information Technology	8.3%
Energy	5.6%
Health Care	1.9%
Cash	13.6%
	100.0%

Top 5 Holdings

ARWANA CITRAMULIA
EZION HOLDINGS
MALINDO FEEDMILL
TIGA PILAR
GUOCOLEISURE

Size distribution

	No. of Holdings	% of Holdings
Small Cap (<US$1b)	33	51.1%
Mid Cap (US$1b-$5b)	15	21.2%
Large Cap (>US$5b)	10	14.2%
Total	58	86.4%

Risk/Return

Since Fund inception	Annualized Return (%)	Annualized Std. Dev (%)	Sharpe Ratio (RFR=2%)	Information Ratio
The Fund, net (SGD)	28.5%	10.3%	2.57x	1.89x
MSCI AxJ net (SGD)	9.3%	16.7%	0.43x	N/A

Valuation

	Trailing P/E	Trailing P/B	Indicative Dvd Yld	Median Mkt Cap (US$ m)
DCG Asia Value Fund	12.0x	1.5x	2.3%	788
MSCI Asia ex Japan	12.1x	1.5x	2.5%	N/A

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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Dear Investor,

The Fund had another good month in March with net NAV gaining 2.67% to $146.85 per share.

For the first quarter of 2013, the net NAV had gained a total of 12.3% compared to the benchmark's 0.8% rise in SGD terms.

The first quarter's performance was in large part attributed to sharp gains in our investments in Indonesia and Philippines. These include **Arwana**, **Malindo**, **Universal Robina** and **Puregold**.

Other standout performers over the quarter included **Samsonite** (+21.4%), **CITIC Telecom** (+37.6%), **First Pacific** (+23.6%), **CWT** (+26.1%), **Ezion** (+28.4%), **JB Foods** (+60.0%) and **Vietnam Dairy** (+30.7%).

Our investments in Sri Lanka have also done well with **Hatton National Bank** (Non-Voting shares) rising 17.1% and **John Keells** rising 12.3% over the quarter. Since our initial purchase, the two positions had gained 25.7% and 21.0% respectively.

Among the notable macro developments in the quarter was the decisive election victory of Shinzo Abe as Prime Minister of Japan. Mr Abe has introduced his brand of "Abenomics" to try to kick-start the moribund economy through a combination of weakening the Yen, more fiscal stimulus, structural reforms, inflation targeting and Quantitative Easing (QE).

Newly appointed Bank of Japan governor, Haruhiko Kuroda stunned the markets by announcing aggressive monetary easing that will among other things double the monetary base in two years. It will also expand the size of its balance sheet aggressively by buying more Japanese Government Bonds (JGBs) across the maturities and may also buy stock and real estate funds.

While we do not know if Abe's economic strategy will work and indeed, the strategy is not without risks, market reactions have been impressive. The Yen is now close to the psychological ¥100 per USD mark, a level not seen since April 2009. The Nikkei 225 Index has gone up 27% year-to-date to 13,290 and well off the low of 7,055 last seen in early March 2009.

China's leadership transition was completed officially with the convening of the National People's Congress. Early economic data point to a slow start to the New Year for the Chinese economy but the newly installed leadership has nonetheless maintained an annual economic growth target of 7.5% in order to realise its vision of doubling China's 2010 per capita income by the year 2020.

Over in Europe, Eurozone-wide unemployment rate has reached 12%, and the economy remains weak with Germany's relatively healthy growth offset by recession hit Southern European economies such as Greece, Spain and Italy. The Italian election results were

inconclusive adding to the political and economic uncertainties in the Eurozone. Cyprus, the smallest of the Eurozone economies needed a €10 billion lifeline from the IMF and ECB to prevent its economy from total collapse and an exit from the Euro. For the first time, bank depositors were asked to take a “haircut” to “bail-in” the banks. There are concerns whether this very drastic measure would cause Spanish and Italian depositors to withdraw their bank savings but as we write, Italian and Spanish bond spreads have not widened much and the ECB has stated that the Cypriot solution is not meant to be a template for dealing with future bank failures elsewhere in the Eurozone.

In the US, Republicans and Democrats continue to bicker over the US fiscal deficit and debt ceiling with still no clear resolution in sight. Meanwhile, sequestration of US government spending (US$85 billion in 2013) has begun and payroll tax has gone up, shrinking worker’s paychecks. The Fed continues to buy bonds in spades to keep interest rates low in an attempt to stimulate the economy and bring down unemployment to the 6.5% target. To some extent, it has succeeded with job creation averaging 191,000 jobs per month in the recent months. However, unemployment remains stubbornly high at 7.7% and GDP growth remains tepid. In the meantime, the Fed’s balance sheet has expanded massively to US$3.2 trillion and there are concerns over when and how the Fed will conduct its exit strategy from QE. Meanwhile, US 10 year Treasuries yield has increased from its low of 1.39% to 1.93%.

The US housing market continues its impressive recovery with more housing starts and median house prices now at US$173,600, compared to a low of US$155,600 in February 2012.

Prospects for the American economy have also been bolstered by recent developments in the US energy industry with shale oil and gas discoveries and improved recovery methods expected to make the US energy self-sufficient by 2030.

The healthier economic outlook is reflected not only in the strength of the US stock market which has recovered to the pre-Lehman high but also in the strengthening Dollar against the Euro, British Pound and the Yen. US companies have also been reporting strong earnings with record profit margins.

The Fed Chairman and other influential members of the Federal Reserve Bank have indicated in recent speeches that QE will continue for the foreseeable future until the unemployment target of 6.5% is reached and economic recovery is on a sustainable path. Some commentators suggest that the earliest time to achieve these targets could be as late as the first quarter of 2014. The use of such unconventional policies not only by the Fed but also by other major central banks (Japan being the latest to join) is unprecedented and no one can really be sure how it will end. In the meantime, “risk assets” are being re-priced upwards.

Among these, perhaps most notable is the surging US stock market. On March 5, the Dow Jones cracked the October 2007 all-time high when it reached 14,286. Since it bottomed at 6,547 in March 2009, the Dow has surged 120 per cent. The broader based S&P 500 Index

also surpassed its previous peak reached in October 2007 when on March 26 it closed at 1,563.

Given the disproportionate influence Wall Street has on global markets, especially Asia, and the sharp gains we have seen so far we need to be watchful of the possibility of a sharp correction in US stocks. So how likely is this? According to Standard & Poor's (S&P), operating earnings (EPS) for the S&P 500 Index companies in 2012 was US$96.80, putting stocks on a trailing PE ratio of 16.2x. Consensus earnings estimates for 2013 currently stands at US$111 which means stocks are selling on 14x forward earnings. Another way of putting it is that stocks are giving investors an "earnings yield" of 7% (the reciprocal of 14x). When compared to US Treasuries 10 year yield of 1.9% and 30 year yield of 3.1%, equities do not look overvalued. Having said that, we also are mindful that profit margins are at record levels and earnings have also been boosted by unusually cheap borrowing costs and may be susceptible to downward revisions. Indeed, at the end of the first quarter, out of 110 companies in the index, 86 have issued negative guidance on forward earnings versus only 24 issuing positive guidance.

To put the market's rise into perspective, it may be helpful to see how stock prices have moved in relation to earnings over the past six years:

Year	Operating EPS	S&P Year End Close	S&P Year High	S&P Year Low	PE High	PE Low
2007	$82	1,468	1,565	1,374	18.9x	16.6x
2008	$49	903	1,447	752	29.1x	15.1x
2009	$56	1,115	1,127	676	19.8x	11.8x
2010	$83	1,257	1,259	1,022	15.0x	12.2x
2011	$96	1,257	1,363	1,099	14.1x	11.4x
2012	$96	1,426	1,465	1,277	15.1x	13.1x
2013E	$111	1,570	1,570	1,426	14.1x	12.8x

Following the Great Recession years of 2008-2009 earnings collapsed from $82 to $49 and $56 and have since recovered to almost US$100 in 2011 and 2012.

Excluding the 2008 high PE ratio of 29.1x as an outlier, we can observe that the price-earnings ratio has fluctuated between 11x to 20x – the current forward PE ratio of 14x is well within this range. On the other hand, the Shiller Cyclically Adjusted Price Earnings (CAPE)* of 22x earnings (see Appendix) suggests that stock prices are at the higher end of their historical range. By way of comparison, Hong Kong's Hang Seng Index (HSI) is at 14.6x CAPE and Singapore's Straits Times Index (STI) at 13.4x.

* CAPE is the Cyclically Adjusted Price Earnings ratio which is computed by dividing the S&P 500 Index by the past 10 years' average inflation adjusted earnings.

Another major risk factor we will be closely monitoring is the risk of interest rates rising sharply. While central banks are able to control short term rates, the longer end (10 to 30 year) rates are really set by market forces beyond the central bank's control and reflect among other things inflation expectations, levels of economic activity as well as the state of countries' fiscal positions. Nevertheless, through aggressive QE, even longer rates have been artificially suppressed. Hence, there is intense focus on the question of when and how the Fed would exit QE. The concern is that any hint of cessation of QE would cause a major sell-down of bonds sending bond yields sharply upwards. A significant up-move in bond yields can trigger a sharp reaction on all sorts of asset prices especially on long duration assets like property, stocks and long term bonds.

At DCG, our investment approach is very much a bottom-up driven one, so while we muse about these macro issues, we continue to focus most of our time and resources on researching for value from a bottom-up perspective. In this respect we continue to find values and note that in spite of the recent sharp gains, our portfolio average PE ratio is still a modest 12x (after adjusting for companies' one-off revaluations, gains and charges).

We would now like to update investors on the corporate results of some of the companies in our Fund.

Despite meeting management's guidance of a 37% increase in production volume, **JB Foods**, Malaysia's second largest cocoa ingredient producer, reported a 55% drop in net profit after margins were squeezed by high raw materials (mainly cocoa beans) prices.

We bought into JB Foods after its IPO last year as it was then trading at an attractive price-earnings ratio of about 6x. The global cocoa ingredient market is dominated by three large players – Archer Daniels, Barry Callebaut and Cargill. Global growth rate is about 3% a year with Asia Pacific growing at 7% reflecting the rising consumption power of Asia's growing middle class. In Asia, the three three major cocoa ingredient producers – Petra Foods, Guan Chong and JB Foods. Recently, Barry Callebaut bought over Petra Foods' cocoa ingredient business paying US$950 million, valuing it at 14.3x EBITDA (earnings before interest, tax, depreciation and amortization). This move further consolidates the industry with the top three players controlling 60 - 65% of the market. We view this as being beneficial to JB Foods as chocolate products makers like Nestle and Hershey would be wary of being too dependent on a few large suppliers.

JB Foods is one of the lowest cost producers in the industry. It makes EBITDA of US$400 - 500 per ton, twice that of Petra's. This is due in part to its strategic location next to Pengkalan Tanjung Pelepas Port in Johor which enables it to reduce its logistics costs. The company is currently expanding its production capacity in Indonesia which will enable it to process locally sourced cocoa beans and take advantage of reduced export taxes on processed beans.

In January 2013, the stock price shot up after the company announced that Sam Goi of Tee Yih Jia had acquired a 16.8% stake in the company. At the current price of $0.45, the stock is no longer as cheap, trading at 11x earnings. Nevertheless, we still like to own it as we see a

great future for the company and profit margins should be restored when it is able to replenish its stock of cocoa beans at lower prices.

UOB reported a good set of 4Q12 results with net profits growing 25% year-on-year (yoy). Net interest margins remain muted due to the low interest rate environment, but customer loans expanded 8% yoy. Shareholders' equity rose 9.2% and return on equity improved to 12.4% for 2012. We like UOB's strong balance sheet and its strong presence in the fast growing ASEAN markets as well as Greater China markets. Regional markets now contribute almost a third of total operating profits. UOB is trading on only 12.2x forward earnings and at 1.2x book and offers a dividend yield of 3.4% if it maintains total dividend at $0.70 (which is only 41% of the earnings per share).

Universal Robina (URC), a pan-ASEAN branded food producer from Philippines, delivered a good set of 1Q13 results, which reflected the underlying strength of the Philippine economy and strong growth in key regional markets like Indonesia and Vietnam. Domestic sales of branded food grew 18% yoy during the quarter, while operating profits expanded 31% on the back of stronger sales and lower raw material prices. Sales in Indonesia are starting to gain traction with 37% yoy growth thanks to URC's aggressive efforts to push sales through both modern and traditional channels in the last two years. Meanwhile in Vietnam, URC's C2 ready-to-drink tea continues to be the second best seller in the category with a 36% market share.

During the year, the company also divested its US$370 million non-core investment portfolio to focus on its core business. Although the shares have been re-rated to 25x 2013 PER, we still continue to hold the stock as we believe the company will benefit from the growing demand for branded food products in ASEAN.

Samsonite International, the producer of Samsonite and American Tourister suitcases, reported very encouraging results for the financial year 2012. Top line sales grew 13% to reach US$1.77 billion while core net income increased 22% to US$167 million. EBITDA margin expanded from 15.9% in 2011 to 16.2% in 2012. Better control of working capital and margins expansion contributed to Samsonite's strong operating cash flow generation of over US$203 million, tripling from US$64.5 million in 2011. We like Samsonite's quality earnings growth across its key markets (North America +22%, Asia +21%, Europe +5%, Latin America +8%) and across product brands (Samsonite +10%, American Tourister +47.4%). At 19x FY2012 trailing earnings, we continue to like Samsonite for its well-recognized product brands, strong balance sheet and cash flows and strong business growth potential especially in Asia.

Vinamilk, the leading Vietnamese dairy producer with over 40% market share of the domestic dairy market, continued to deliver a fantastic set of results for the financial year 2012. Revenue grew 23% to VND26.5 trillion (US$1.28 billion) driven by 6% increase in average selling prices and 17% volume growth while net profit soared 38% to reach VND5.8 trillion (US$281 million) on the back of lower raw material prices.

The two new factories commencing production in 1Q13 will increase the company's total production capacity by 80%, adding about 400 million litres of milk and 54,000 tons of milk powder per annum. The added capacity will be able to support Vinamilk's growth rate of 20-25% per annum until 2016. We believe the company will continue to benefit from the growing demand for milk consumption in the country, given the emerging middle class, young demographics and low milk consumption per capita. At a price 13x trailing FY2012 earnings, we still see a lot of value in this stock, taking into account its well-trusted national brand name "Vinamilk", dominant market share in dairy segment and a wide sales network of over 178,000 point of sales in Vietnam, a country with a population size over 100 million.

Hatton National Bank (HNB) reported a 41% increase in net profit for 4Q12 driven by reduced cost income ratio and lower tax rates. HNB is a good proxy to the growing Sri Lanka economy. The stock has risen 15% in the last six months and trades at 1x price to book and an attractive dividend yield of 6.5%.

The **AIA Group (AIA)**, a leading pan-Asian life insurer listed in Hong Kong with operations in 16 markets in the Asia-Pacific region, recently announced strong results for the financial year ended November 2012. AIA achieved a record 27% growth in the Value of New Business (VNB), a measure of net earnings contribution from the writing of new policies, to US$1.19 billion and underlying Annualized Net Premium grew by 17% to US$2.7 billion.

AIA's Embedded Value (EV), a measure of future net profits from in-force policies as well as the company's adjusted net worth, increased 15% to US$31.41 billion. The EV operating profit rose 12% to US$3.49 billion. AIA also has a very strong solvency ratio that is 3.5x that required by the minimum regulatory capital requirement.

AIA currently trades at 17.7x VNB and 1.7x EV. Management has provided strong guidance on growth and we continue to like AIA's long term growth prospects given the low insurance penetration rates in many of the markets that it operates in.

Springland International, a regional department store and supermarket operator based in the Greater Yangtze River Delta, reported a weak set of results for FY2012 amidst weakening Chinese consumer sentiments. Total sales proceeds grew 13% driven by both new store openings (2 department stores and 4 supermarkets) and same-store-sales growth (SSSG) for department store business at 8.8%. Its supermarket business experienced same-store-sales drop of 1% due to intensified competition from national and international supermarket chains like Sun Art (FY2012 SSSG: +3.3%), China Resources Enterprises (FY2012 retail SSSG: +4.1%) and Walmart China.

Going forward, we think that competition will become more intense driven by the aggressive expansion plans of the company and its competitors. A few examples include Golden Eagle, planning to add close to 1.4 million sqm of floor space for the 2013 - 2016 period; Springland, planning to add 490 thousand sqm GFA in the next three years; and Sun Art, planning to open 157 stores in the next three years. With commission rates getting thinner and rising staff cost caused by the minimum wage increase of at least 10 - 13% per

annum expected over the next three years, we see headwinds facing Springland and consequently have disposed of our investment.

CITIC Telecom is one of the stocks that belong to the dividend yield bucket. It recently moved up from HK$1.40 to HK$2.95. It raised its stake in Companhia de Telecomunicacoes de Macau (CTM), the largest telecom operation in Macau from 20% to 100% by buying the remaining stock from Portugal Telecom and Cable & Wireless. At our initial purchase price, the stock was giving a dividend yield of over 7% with earnings growth in the mid-single digit range. With the acquisition, the gearing would increase significantly while the dividend yield has fallen to 3% after the stock's sharp gains. In view of the smaller margin of safety at these levels, we have decided to sell our positions.

Finally, we would like to provide some updates on our company. We are pleased to inform that our application to be a Registered Fund Management Company under the MAS' new Enhanced Regulatory Framework has been approved. We would also like to inform investors of the appointment of Jeremy Wong Sau Wah as Head of Operations and Compliance. Jeremy replaces Francis Teo who resigned at the end of 2012 to pursue other interests. We are grateful to Francis for his services and wish him well.

We welcome investors to contact us via phone or email if you have any questions for us. Our contact details are:

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Jeremy Wong : 6592 5725 jeremywong@dcginvest.com

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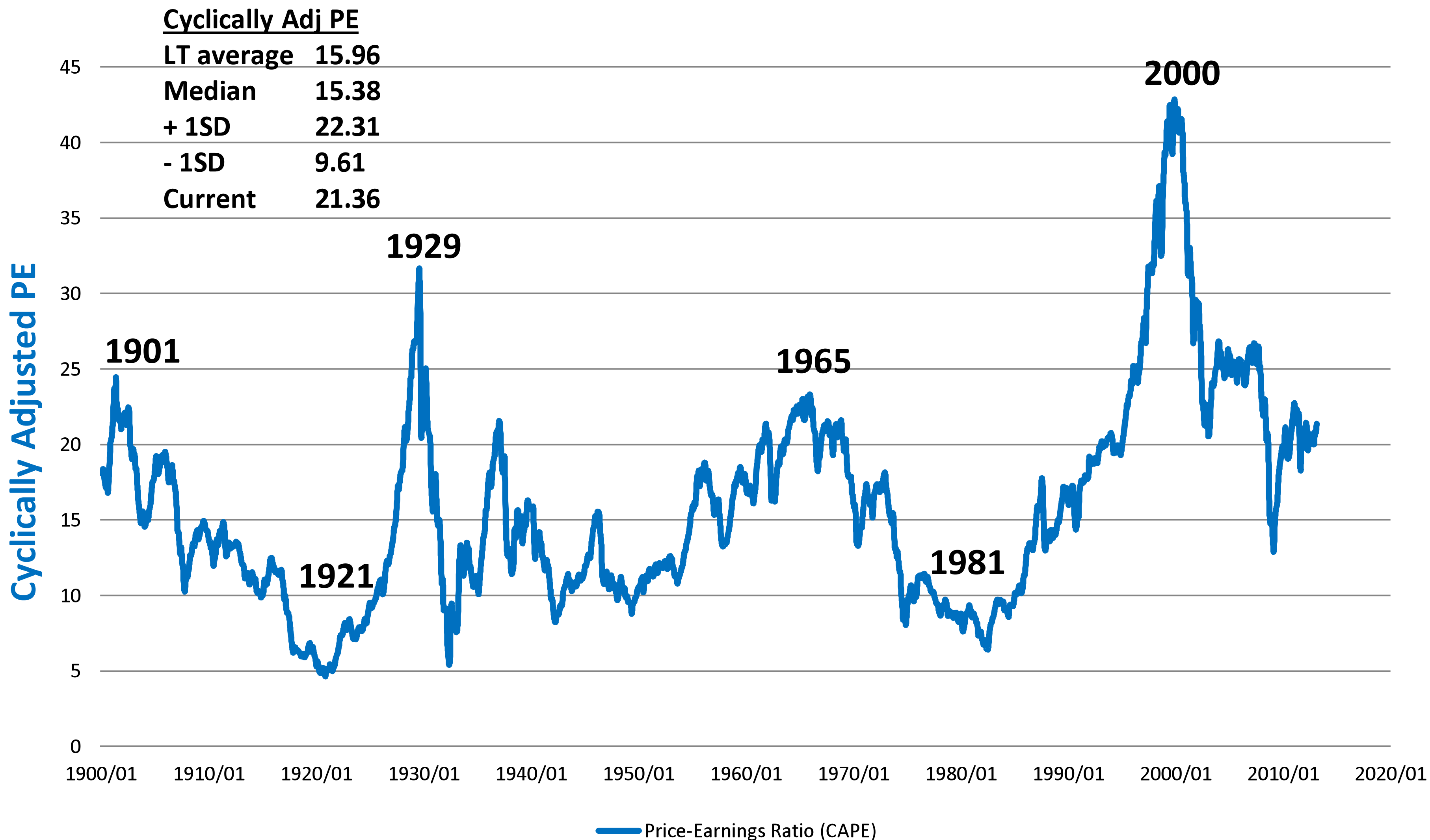
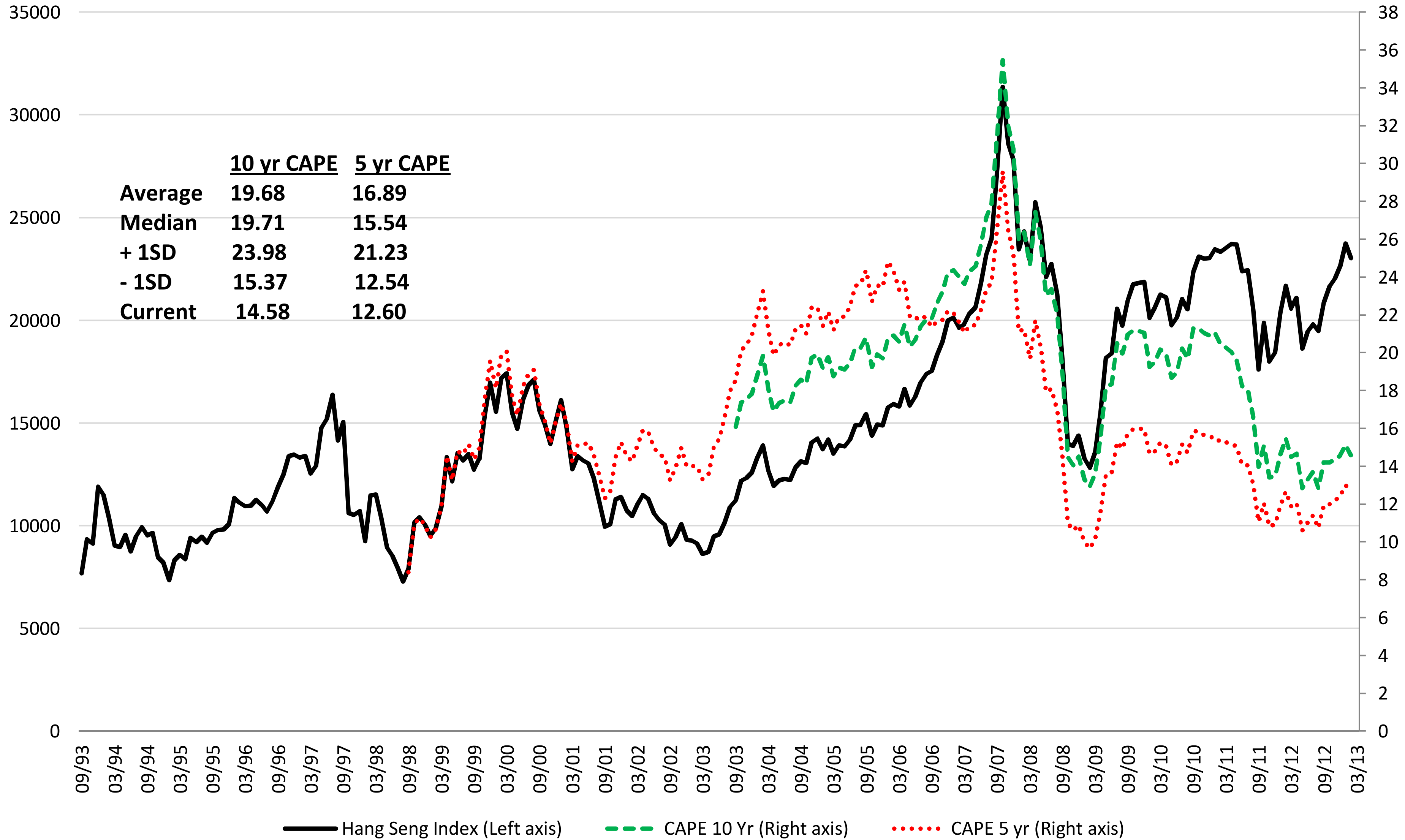

Cyclically Adj PE
LT average 15.96
Median 15.38
+ 1SD 22.31
- 1SD 9.61
Current 21.36
Cyclically Adjusted PE
1901
1921
1929
1965
1981
2000
45
40
35
30
25
20
15
10
5
0
1900/01
1910/01
1920/01
1930/01
1940/01
1950/01
1960/01
1970/01
1980/01
1990/01
2000/01
2010/01
2020/01
Price-Earnings Ratio (CAPE)
http://www.econ.yale.edu/~shiller/ - Robert J. Shiller, Bloomberg


Cyclically Adjusted Price Earnings (HSI Index)
10 yr CAPE
5 yr CAPE
Average 19.68 16.89
Median 19.71 15.54
+ 1SD 23.98 21.23
- 1SD 15.37 12.54
Current 14.58 12.60
35000
30000
25000
20000
15000
10000
5000
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38
36
34
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09/93
03/94
09/94
03/95
09/95
03/96
09/96
03/97
09/97
03/98
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03/09
09/09
03/10
09/10
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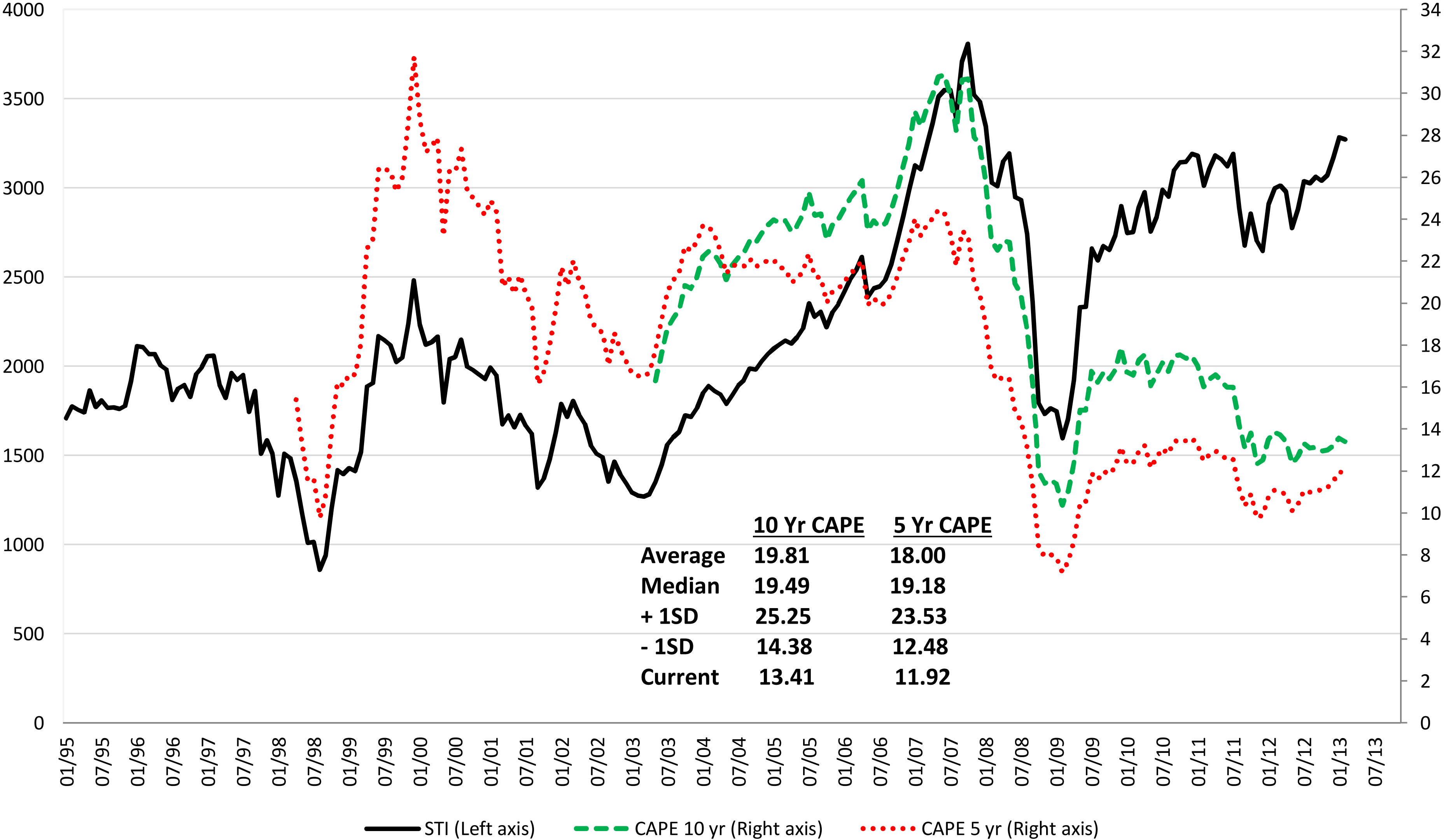
03/13
Hang Seng Index (Left axis)
CAPE 10 Yr (Right axis)
CAPE 5 yr (Right axis)
Bloomberg


Cyclically Adjusted Price Earnings (STI Index)
4000
3500
3000
2500
2000
1500
1000
500
0
34
32
30
28
26
24
22
20
18
16
14
12
10
8
6
4
2
0
10 Yr CAPE 5 Yr CAPE
Average 19.81 18.00
Median 19.49 19.18
+ 1SD 25.25 23.53
- 1SD 14.38 12.48
Current 13.41 11.92
01/95
07/95
01/96
07/96
01/97
07/97
01/98
07/98
01/99
07/99
01/00
07/00
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01/10
07/10
01/11
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01/12
07/12
01/13
07/13
STI (Left axis)
CAPE 10 yr (Right axis)
CAPE 5 yr (Right axis)
Bloomberg