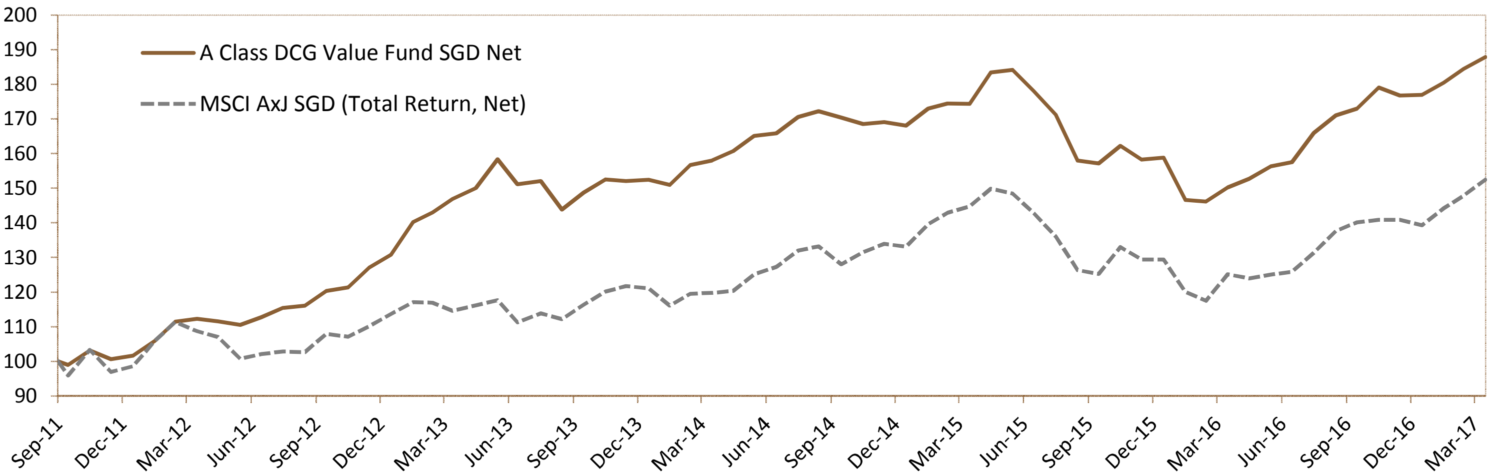
DCG Asia Value Fund

March 2017
NAV: SGD187.8 ('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	Fund YTD	Index YTD
2017	2.0	2.2	1.8										6.1	
Index[1]	3.5	2.5	3.1											9.5
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	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] (%)													87.8	52.4

*Current year returns are unaudited. Past performance is not indicative of future results. References to the MSCI AxJ SGD index do not include expenses that an investor may bear. The net returns of the Fund are based on published results to an original investor net of fund expenses, management fees (1.25%) and incentive allocation (12.5%). The incentive allocation is accrued monthly, although the fee is charged at year end.

(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 (%)	12.0	7.9
Standard Deviation (%)	9.9	11.8
Sharpe Ratio (x)	1.01	0.50
Sortino Ratio (x)	1.74	0.81
Information Ratio (x)	0.58	N/A
Peak to Trough (%)	-20.6	N/A

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

Portfolio Concentration	
No. of holdings	46
Top 10 holdings (%)	31.8
Top 20 holdings (%)	53.1

Fund Exposure

Country Exposure (%)	
HK/ China	29.3
Singapore	22.3
Indonesia	9.3
Vietnam	6.2
Sri Lanka	6.2
Philippines	5.7
Taiwan	3.3
Malaysia	1.9
Thailand	1.2
Cash	14.6
Total	100.0

Sector Exposure (%)	
Information Technology	16.4
Industrials	15.6
Consumer Staples	15.6
Financials	12.7
Real Estate	8.6
Energy	6.6
Consumer Discretionary	5.7
Telco Services	3.5
Materials	0.9
Cash	14.6
Total	100.0

Fund Details

Size (equities)[4]	
Small Cap (<US$1b)	28
Mid Cap (US$1b-$5b)	6
Large Cap (>US$5b)	12
Total	46

(4) Median market capitalization US$656 mil

Top 5 Holdings

Global Logistic Properties
China Aviation Oil Singapore Corp
Tiga Pilar Sejahtera Food
SBS Transit
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

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March 2017
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Monthly Net Returns* (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Fund YTD	Index YTD
2017	5.0	3.0	2.1										10.3	
Index[1]	6.2	3.4	3.3											13.4
2016	-8.1	0.9	7.2	1.9	-0.3	3.0	5.9	1.3	1.1	1.5	-4.3	-0.9	8.7	5.4
2015			-0.8	8.6	-1.2	-3.2	-5.6	-10.3	-1.3	4.8	-3.1	-0.1	-12.7	-13.0
Inception to Date[2] (%)													4.8	4.0

*Current year returns are unaudited. Past performance is not indicative of future results. References to the MSCI AxJ index do not include expenses that an investor may bear. The net returns of the Fund are based on published results to an original investor net of fund expenses, management fees (1.25%) and incentive allocation (12.5%). The incentive allocation is accrued monthly, although the fee is charged at year end.

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

(2) Inception-to-date performance for USD A Class and MSCI AxJ are computed from 01 Mar 2015, the date of USD A Class inception

Dear Investor,

Performance

The Fund achieved a 6.1% return in the quarter ended 31 March 2017 with an NAV of S$187.8. This is above the current high water mark of S$178.1 (closing NAV at 30 June 2016) as well as the peak NAV of S$184.1 reached in May 2015.

Though not a bad performance in absolute terms, we are disappointed to lag the MSCI Asia ex-Japan Index's 9.5% gain in the same period.

As value investors, we take a long term view and focus on fundamentals, searching for the best ideas to invest in. Fundamental drivers may take time to be reflected in stock prices. We do not manage the Fund with the aim of outperforming the index every single quarter. This is virtually impossible as even the best fund managers go through occasional periods of underperformance. What we do expect, however, is to outperform the index over the long term as fundamentals get recognized and stock prices more accurately reflect the value of the stocks we have chosen. This we believe we have achieved having attained an 88% return since inception against the index's (total return in SGD) 52% return.

Also, as we often remind investors, our Fund is managed on an absolute return, benchmark agnostic basis with a very high 'active share' – 0.94 to be exact. A high active share[1] means our portfolio looks very different from the index. As such, the Fund's performance will deviate significantly from the index from time to time.

The quarter's strong market performance against a backdrop of much uncertainty in the run-up to Donald Trump's ascension to the U.S. Presidency did come as a bit of a surprise. We offer a few plausible explanations. One is that there may have been a start-of-the-year funds reallocation back to Asia by institutional investors. Such flows tend to buy into major index components to minimise tracking errors. Another reason: markets were relieved that, as President, Trump took on a more acceptable foreign policy stance towards China, re-affirming the One China Policy and not naming China as a currency manipulator nor slapping the 45% import tariff on Chinese imports as he had promised voters during the election campaign. In the last few weeks, economic statistics across Asia, Europe, and the U.S. have also improved, an unusual synchronisation of trends.

The U.S. Federal Reserve's March rate hike was well-telegraphed and had little impact on stock markets and Asian currencies. The Chinese Yuan stabilised at the 6.90 level while major Chinese banks reported steady profits while non-performing loans were broadly stable.

[1] The way to outperform an index is to be different from it. Active share measures how much a manager's holdings differ from those in the benchmark. Managers with high active share have different exposures to the benchmark's. Active share ranges from one, in which the portfolio holds only securities not in the benchmark, to zero, where the portfolio holds all the securities in -- and is identical to -- the benchmark.
DCG's active share as at 31 March 17 is 0.94.

Portfolio Updates

At end-March, the portfolio held 46 names with cash at 14%.

One of the larger positions in the Fund is **SBS Transit (SBUS)**. We built the position over the past year at cost in the mid-$2.30s. SBUS has a market capitalization of S$790 million, enterprise value of $1 billion, trades at 1.9x book, PE of 25x. Optically, this is an expensive stock. We hold SBUS as it transitions from an asset-heavy to asset-light business. We expect the market to re-rate the stock once the financial statements are free of distortions from the regulator's historical financing methods. It will then be apparent that SBUS's free cash flows are strong, stable, and sustainable.

Public transport in Singapore is filled with many complex acronyms -- bear with us as we attempt to keep this case short and simple.

What does SBUS do?

a) Public bus operator- 2/3 of listco operating profit

SBUS operates the largest (~3,200) public bus fleet in Singapore -- twice the size of no. 2 public operator SMRT. Despite fuel and wage cost hikes over the years, public bus fares have not risen in step. Bus division profits are supported by commercial services -- advertising and rentals at bus terminuses.

b) Rail operator – 1/3 of listco operating profit

SBUS owns the operating rights to two metro lines in Singapore. The 14-year-old North East Mass Rapid Transit line (NEL) and partially opened Downtown Line (DTL). DTL is about 50% opened with the remaining 50% of stations operational by Dec 2017.

Rail profitability on the NEL is very good as the world's first fully automated underground rail, and it has seen very heavy user traffic. DTL is recently opened but initial indications are of robust usage by end-2017. Commercial rental area is also 4 times NEL's.

SBUS then

Over the past decade, as population growth strained public infrastructure, the regulator placated public discontent by demanding better service coverage and standards. SBUS obliged with its balance sheet (government grants helped keep the impact 'profit-neutral'). Capex consistently ran ahead of listco's EBITDA, usually 2x. By end-2016, total assets were 2.1x, total liabilities 2.9x. and equity 1.5x compared to end-2006.

Public bus fare hikes over this period proved politically difficult to pass. The huge rise in riders went along with wage, maintenance, and fuel cost pressures so that, despite the efforts of SBUS's (in our view) world-class management, net profit fell 1/3 for the decade to 2016.

This was very dissatisfactory for SBUS shareholders. Total return including dividends for the decade ended Dec 2016 averaged 2.3% p.a., just barely matching inflation.

Listco	Total Return per year (10 year average)
Comfort Delgro (SBUS's parent)	+ 8.3%
SMRT – Privatised Oct'16	+ 7.0%
SBUS	+ 2.3%

SBUS now

The launch of a new Bus Contracting Model in 3Q 2016 is the key change we were seeking -- SBUS will now be 'asset-light'. The government bears the burden of capital expenditure and fare risk while SBUS focuses on being a pure commercially minded service provider, earning a pre-determined service fee, with incentives and penalties, to meet certain operating metrics. As before, SBUS will keep non-fare revenue such as advertising and rentals. Certain cost increases such as wages and fuel may be passed through to the government.

The flip side to this is that, over the next 5 to 7 years, most of SBUS's routes will be up for competitive bidding by other service providers. While market share has fallen, we expect SBUS management to do well. Its parent Comfort Delgro already competes profitably in the London, Sydney, Melbourne, and Perth bus markets.

SBUS transformed -- Straits Times laggard to free cash flow cow

On the Rail side, the remaining overhang is NEL's transition to the New Rail Financing Framework. NEL is highly profitable now, and any potential reduction in profit from the transition will likely be exceeded, matched by DTL's growing profit contribution. Rental profit contribution alone from fully opened DTL stations should be in the S$10-15 MM range. i.e. in the same ballpark as listco's entire 2015 annual profit.

Like some of our other stocks, SBUS is now in free cash flow harvesting mode. EBITDA should comfortably exceed S$150 MM with negligible capex needs in asset-light mode. This gives us a 16% free cash flow yield business in a stable (at least for the next 5-7 years) environment with tip top management.

Outlook

As always, the markets confront a number of macro-economic and geo-political issues that may affect the investment climate in the coming months.

Among these, uncertainties over Trump's economic policies, especially over trade and protectionism, and how he handles North Korea's nuclear ambitions. Another is China's high debt levels and concern over its shadow banks and potential blow-ups in some of the lower quality wealth management products. A faster-than-expected trajectory of interest rate hikes by the U.S. Federal Reserve can also upset the markets.

Despite this backdrop of macro-economic and geo-political uncertainties, we remain upbeat about the long-term investment outlook for this part of the world. We have identified several fresh ideas for further in-depth analysis and will likely deploy part of our cash reserves into these while committing more funds selectively into existing positions where our conviction levels have risen.

Update

In accordance with industry best practice, we would like to update that TJ has, on a personal basis, taken up a new appointment as member of the investment committee of the non-profit organisation Credit Counselling Singapore.

For the latest updates on the team's biography, including Daniel's personal involvement with non-profit organisations, please visit our website at www.dcginvest.com

Daniel Chan

Melvin Tan

TJ Tan

Alexis Tran

David Teoh

This document is not intended to constitute investment advice and should not be relied upon as such. Reference to specific securities is not intended to be and should not be interpreted as recommendation to purchase or sell such securities. Past performance is not an indication of future performance.