DCG Asia Value Fund

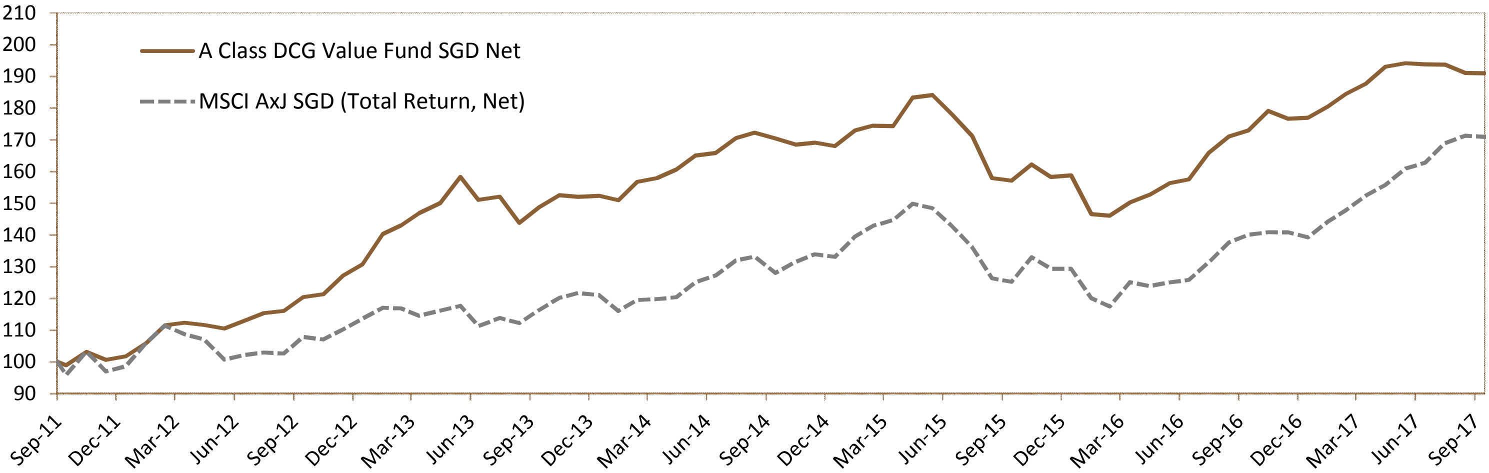
September 2017
NAV: SGD191.0 ('A' Class)

DCG capital

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	2.8	0.6	-0.2	0.0	-1.4	0.0				8.0	
Index(1)	3.5	2.5	3.1	2.2	3.3	1.1	3.8	1.4	-0.2					22.8
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) (%)													91.0	71.0

*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)	Fund, net(4)	Index
Annualized Return (%)	11.3	9.3
Standard Deviation (%)	9.6	11.4
Sharpe Ratio (x)	0.97	0.64
Sortino Ratio (x)	1.67	1.03
Information Ratio (x)	0.28	N/A
Peak to Trough (%)	-20.6	N/A

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

(4) Net of management fees and incentive allocation

Portfolio Concentration

No. of holdings	47
Top 10 holdings (%)	31.0
Top 20 holdings (%)	52.2

Fund Exposure

Country Exposure (%)		Sector Exposure (%)	
HK/ China	29.9	Industrials	22.4
Singapore	25.2	Information Technology	21.7
Sri Lanka	7.2	Financials	17.6
Indonesia	5.7	Consumer Staples	9.0
Taiwan	5.4	Real Estate	5.2
Vietnam	4.9	Energy	4.1
Korea	4.3	Consumer Discretionary	3.8
Philippines	3.9	Telco Services	3.5
Malaysia	2.0	Materials	1.0
Cash	11.6	Cash	11.6
Total	100.0	Total	100.0

Fund Details

Size (equities)[5]	
Small Cap (<US$1b)	25
Mid Cap (US$1b-$5b)	9
Large Cap (>US$5b)	13
Total	47

(5) Median market capitalization US$730 mil

Top 5 Holdings

China Aviation Oil Singapore Corp Ltd
Tencent Holdings Ltd
Valuetronics Holdings Ltd
SBS Transit Ltd
Hatton National Bank PLC

Fund Information

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

Terms

Minimum Initial Investment	S$150,000
Minimum Subsequent Investment	S$10,000
Early Redemption Fee[i]	3% in 1st year; 2% in 2nd year; 1% in 3rd year
5% Redemption Option[ii]	Elect annually by 30 June, valued at July-end NAV
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[iii]	1.25% / 12.5%

[i]Retained in the Fund for Fund investors
[ii]Early redemption fee will be waived
[iii]Applicable only to A Class shares

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Important Notice

Monthly Net Returns* (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Fund YTD	Index YTD
2017							0.0	-1.2	0.1				-1.1	
Index[1]							3.8	1.4	-0.2					5.1
Inception to Date[2] (%)													-1.1	5.1

*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 and incentive allocation. 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 S Class and MSCI AxJ are computed from 01 July 2017, the date of S Class inception.

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	2.8	1.5	0.2	1.4	-1.3	-0.1				15.3	
Index(1)	6.2	3.4	3.3	2.2	4.3	1.6	5.3	1.3	-0.1					30.9
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) (%)													9.5	20.1

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(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

We did not have a good September Quarter with our NAV flat vs the Index's 5.0% return (in SGD). For the 9 months to September, NAV was up 8.0% vs the Index's 22.8%.

The Hong Kong and China markets were the best performers during the quarter and year-to-date, led by technology and property names. Vietnam, Korea, and India also did well, along with Singapore's relatively healthy gains.

Though we had sizeable gains from winners like Valuetronics and Tencent, our performance was dragged by some heavy losers like Tiga Pilar (more on this later) and Pax Global.

Index heavyweights Tencent, Alibaba, and Samsung registered hefty returns but we were relatively light on these names and do not own Alibaba.

Portfolio Updates

During the quarter, we added seven names, and removed five. Cash was reduced and our investment increased.

We wrote many times in our newsletters about **Tiga Pilar** (Tiga) and its main businesses: rice milling plus distribution, and basic food and snacks, which contributed 53% and 47% of profit respectively. In FY16, its revenue totalled S$700m with core profit of about $55m. We invested in Tiga on Indonesia's rising middle class driving more consumption spending in snack foods and branded rice as opposed to loose rice.

In the past 5 years, the rice business has grown tremendously from S$70m sales in 2011 to over $400m in 2016. The Indonesian rice market is highly fragmented with Tiga's market share at only 4%. While 70% of the rice volume is sold in bulk or non-branded form, fetching a 4-5% margin, 30% is sold in branded packs with better 8-12% margins. Selling more branded packs helped Tiga raise overall margins.

The food and snacks business, although growing slower than rice, has done very well too. Revenue expanded 2.5x from ~S$98m in 2011 to S$250m in 2016 with respectable 10-13% net profit margins.

On 21 July 2017, Tiga's stock price fell 40% after the Jakarta police raided one of their rice warehouses and confiscated about 600 tons of rice. The alleged offence was mis-labelling some of their rice packages and using state-subsidised rice for commercial purposes. We met the company in early August, seeking clarification. It is cooperating fully with the authorities to resolve matters and denied engaging in such egregious activities. Indonesia then set a price cap for all rice grades to control inflation.

Our assessment is that the Company, having been in the rice business for so long, is probably truthful. In any case, the bad news is already priced in and Tiga's basic food and snack business has not been affected. The impact of the police investigation is mostly on the branded rice business, which is about 30% of its total rice business.

At a current market cap of S$320m, Tiga trades at 0.7x PB and 11x PE, assuming a pessimistic scenario that the rice business does not contribute any profit. We decided to hold on to the stock as we consider the recent setbacks as likely temporary.

Pax Global (Pax) manufactures electronic payment terminals for credit and bank card payments. It ranks third globally after Ingenico and Verifone. We invested in Pax for its growing business in international markets like Latin America and the Middle East, and its cheap valuation vis-a-vis competitors. Its share price fell 18% over the quarter after announcing weak results. We removed it from our holdings due to concerns over the longer-term business risk posed by new forms of payments that bypass POS terminals.

Cityneon has been in our portfolio for about a year. This Singapore-listed small cap (~S$300 MM market cap) trades at 20 x trailing PE. Like some of our other holdings, its business model is undergoing change from exhibition services and event management, essentially acting as a contractor and supplier for events and exhibitions. The new business is in Intellectual Property Rights management. New Chairman and substantial shareholder Ron Tan, who came into the picture in 2015, was instrumental in obtaining the global rights to operate interactive exhibitions.

Cityneon holds the rights and licences to:

1. Disney-owned Marvel Avengers Station;
2. Hasbro-owned TRANSFORMERS; and
3. Universal Studios-owned Jurassic World Exhibition.

The economics of operating interactive exhibitions is straightforward: Cityneon invests in fixed assets for these exhibitions (e.g, lights, LCD screens, robotic dinosaurs, Ironman suits) -- S$6-7 MM per complete set. It also operates permanent sets that do not move around the world, but all of Cityneon's growth will come from its travelling sets. The company will negotiate with various large venue owners to bring the exhibition to town. The venue owners (think stadium owner, science centre operator or large shopping mall) typically pre-pay a licencing fee to Cityneon, and provide some percentage of profit share from ticket and merchandise sales. Assuming the travelling set is used twice a year, cash payback for the investment is 2 years or less.

Cityneon currently has 4 Avengers sets, 2 Transformers sets, and 1 Jurassic World set. Looking at the pipeline of film sequels of Marvel, Transformers, and Jurassic World, we anticipate movie interest in these 3 franchises raising exhibition demand in 2018-19. Cityneon's greatest growth opportunity is in China and its new shareholders include several Chinese parties.

We expect earnings to increase significantly over the coming years as Cityneon builds and markets more sets. We also see the older business being properly restructured and turned around.

Hatton National Bank

We have held **Hatton National bank (HNB)** since Apr 2012 and this position has grown through steady price appreciation to now constitute one of our top 5 positions.

Today, HNB is the 2nd largest private sector bank, closing in on the largest bank -- Commercial Bank of Ceylon. Private sector banks have proactively adjusted lending rates and meeting industry demand. HNB has seen above-average industry loan growth over the years as well as good risk/credit management capabilities.

In the last 5 years, operating profit per share has extended at a 26% CAGR. Over 2009-11, the groundwork was laid to expand its retail network by opening branches. It also invested in automation and IT systems, reducing its 53% cost-to-income ratio to 48% in the last few years. Despite the strong track record, it is undervalued, trading at 7x PE 2017, 1x PB, and an admirable 16% ROE.

Outlook

The global macro-economic picture looks relatively healthy. Eurozone economies, now firmly on the recovery path, join the US and Asia in a synchronised growth phase. Even the sluggish Japanese economy is showing strength lately. China's economy has surprised with its resilience and looks capable of expanding over 6% p.a. for some time to come. The recently concluded 19th Chinese Communist Party Congress results point to a steady continuation of China's economic strategies and policies with President Xi Jin Ping firmly in control.

The World's major central banks have signalled their intent to normalise their balance sheets after 9 years of quantitative easing. Meanwhile, the US unemployment rate has fallen to 4.2%, a 10-year low. With changes expected in the Fed's composition (more hawkish or more dovish?), there is some uncertainty over how fast the Fed will adjust its monetary policy, if at all. Most pundits expect another 25 bps rate hike this December, which will be the fifth adjustment since the first rate hike in Dec 2015.

Interest rates remain our main concern. Although the US 10-year treasury rate has doubled in the past year to 2.4%, it remains near multi-decade lows. US stock markets have been hitting new highs and the bull market is now 8.5 years old, the second longest on record. Investors seem complacent about inflation or interest rate risk. Still, we see stocks as the preferred asset class to hedge against inflation, and Asian markets remaining attractive on fundamentals and valuation considerations, both on absolute and relative perspectives.

Update

At this point we also want to update that David Teoh, one of our investment analysts, bids his farewells. David has been with DCG for five of our six years in operation. He has proven to be a dependable young man always curious about the undiscovered small caps. We appreciate his hard efforts for the fund as well as DCG and wish him all the best in his future endeavours.

Daniel Chan

Melvin Tan

TJ Tan

Alexis Tran