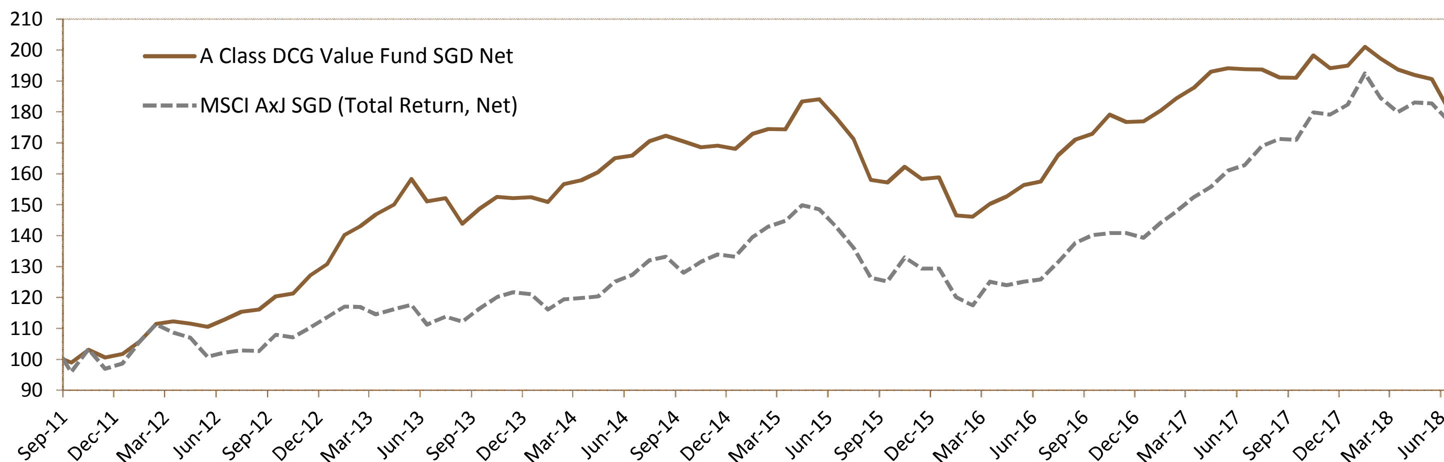
DCG Asia Value Fund

June 2018
NAV: SGD180.7 ('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
2018	3.1	-1.9	-1.8	-0.9	-0.7	-5.2							-7.3	
Index[1]	5.6	-4.1	-2.5	1.7	-0.2	-3.1								-2.9
2017	2.0	2.2	1.8	2.8	0.6	-0.2	0.0	-1.4	0.0	3.8	-2.1	0.4	10.2	30.9
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] (%)													80.7	77.1

*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, 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 (%)	9.1	8.8
Standard Deviation (%)	9.7	11.4
Sharpe Ratio (x)	0.73	0.59
Sortino Ratio (x)	1.27	0.98
Information Ratio (x)	0.05	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	43
Top 10 holdings (%)	36.5
Top 20 holdings (%)	61.1

Fund Exposure

Country Exposure (%)	
HK/ China	33.0
Singapore	26.0
Philippines	6.8
Sri Lanka	4.7
Korea	4.4
Taiwan	3.6
Vietnam	3.2
Indonesia	2.5
Malaysia	1.2
Cash	14.7
Total	100.0

Sector Exposure (%)	
Financials	22.4
Industrials	17.7
Information Technology	14.8
Consumer Discretionary	13.1
Consumer Staples	7.6
Real Estate	4.5
Energy	3.8
Telecommunication Servic	1.4
Cash	14.7
Total	100.0

Fund Details

Size (equities)[5]	
Small Cap (<US$1b)	19
Mid Cap (US$1b-$5b)	9
Large Cap (>US$5b)	13
Total	41

(5) Median market capitalization US$1,231 mil

(5) Holdings exclude one bond and one warrant

Top 5 Holdings

Oriental Watch Holdings
SBS Transit Ltd
Industrial & Commercial Bank of China Ltd
Jardine Cycle & Carriage Ltd
Dah Sing Banking Group Ltd

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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DCG Asia Value Fund

June 2018
NAV: SGD94.4 ('S' Class)

Monthly Net Returns* (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Fund YTD	Index YTD
2018	2.9	-1.7	-1.6	-0.6	-0.6	-5.1							-6.6	
Index[1]	5.6	-4.1	-2.5	1.7	-0.2	-3.1								-2.9
2017							0.0	-1.2	0.1	3.6	-1.8	0.5	1.0	12.0
Inception to Date[2] (%)													-5.6	8.8

*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
2018	4.9	-2.7	-1.2	-1.7	-1.4	-6.9							-9.0	
Index[(1)]	7.6	-5.0	-1.5	0.7	-1.3	-4.8								-4.8
2017	5.0	3.0	2.1	2.8	1.5	0.2	1.4	-1.3	-0.1	3.2	-1.2	1.2	19.0	41.7
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)] (%)													2.8	23.8

*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 performed poorly in the last quarter of our financial year ended 30th June with NAV registering a drop of 6.7%. For the full year the NAV declined 7.8%.

During the June quarter, worries over a possible US-China trade war roiled the Asian stock markets. Shanghai fell 11.3% while ASEAN markets also saw steep losses – Vietnam was down 15.6%, Philippines 8.1%, Indonesia 6.3%, Singapore 4.6% and Malaysia 9.6% while Hong Kong was up 0.1%.

For the year ended June 2018, the index's 8.8% gain masked the poor performances in individual markets. With the exception of Hong Kong and Vietnam, most markets returned significantly below the index.

Markets			
Philippines	- 12.8	Vietnam	+ 24.4
Shanghai	- 7.6	Hong Kong	+ 14.5
Indonesia	- 6.9	Singapore	+ 4.8
Korea	+ 0.6	MSCI Asia ex Japan	+ 8.8

Table 1: 12 months to Jun 2018 SGD total returns %. Source: Bloomberg

Index heavyweights like Tencent, Alibaba, Baidu and others which performed outstandingly well over the period had distorted the poorer broad market performance. We had discussed in our last annual letter the impact of passive investing and this remains very pertinent.

We had some outstanding outperformers during the year including Kweichow Moutai, Tencent, and Oriental Watch which returned 55.1%, 40.9% and 42.0% respectively. But, these were not enough to compensate the detractors.

Despite our disappointment with the performance this year, our faith in value investing has not wavered. We still believe that sticking to fundamentals and adopting a long-term investment horizon is the better way to invest.

Yearly Reflections

We would like to explain why some of the stocks we own detracted significantly from the fund's performance these past 12 months.

Tiga Pilar was discussed in depth in our September 2017 letter. Despite our relatively quick exit (the price collapsed another 80% after our last sale), this mistake is like a bad case of foot rot – it haunted our performance through the rest of the year – dragging the NAV down 1.5 percentage points.

The stock price has fallen more than 40% on news of a police raid on its warehouse.

Our conclusion then was that the stock remains a hold after further review and discussions with management, particularly regarding allegations against the company's rice business.

Subsequently in November 2017, we attended the EGM to approve the proposed sale of the rice business. The aim was to ringfence the business's debt obligations and protect the profitable and growing branded snack food business. The proposed disposal was passed despite concerns about the ability of the buyer (Tiga's main shareholder) to finance the deal.

Our research revealed that, as a result of the government's attack on Tiga Pilar's rice business, sales volume collapsed and the company faced difficulties with cash flow as distributors and suppliers demanded faster payment. Moreover, cash from the earlier sale of its oil palm plantation business to Tiga's major shareholder has yet to be received.

In such circumstances, we exited our position as the company faces a very uncertain future with cash flow difficulties and high debt level. While painful to take the loss then, it would have been even worse had we retained the investment as the share price fell a further 80% and the company recently defaulted on its debt.

Our experience with Tiga Pilar highlighted the need to factor in the risk of sudden policy changes, especially involving basic staples, a politically sensitive issue in lower-income emerging economies like Indonesia

Quang Ngai Sugar ("QNS") – In early 2017, we bought QNS, a leading Vietnamese soy milk and sugar producer. This was a 0.74% drag on the portfolio for the fiscal year.

QNS produces and sells soy milk under the Fami and Vinasoy brand. Some 250 million litres (L) of soy milk were sold in 2017 via 156 first-tier distributors and 145,000 points of sales. Its home base in north and middle Vietnam garners a market share of over 90%. In 2017, QNS commissioned its first phase of Binh Duong soymilk factory with 90 million-litre capacity, and is building and refining its distribution network in southern Vietnam.

Per capita soymilk consumption in Vietnam is still a low 6.8L/year, compared with Taiwan (8.9L), Malaysia (9.0L), China (9.8L), and Thailand (13.2L). Branded soymilk forms about 48% of total consumption and QNS has 80% of this pie. Better hygiene awareness and higher disposable income have driven sales of branded food & beverage in general, and soymilk in particular. Over 2010-17, branded soymilk sales in Vietnam grew 17% p.a.

QNS is also one of Vietnam's largest, most profitable sugar producers with 11% market share. Most of its sugar is sold through B2B channel to local confectioners and beverage manufacturers and for its own consumption. It also sells beer, mineral water, and confectionery.

For FY2017, soy milk contributed about 56% of revenue and about 80% of net profit, sugar sales accounted for 24% of sales but loss making, and confectionery and beer was about 20% of sales and 20% of bottom line.

Although it has a sugar business attached, we bought the stock primarily for its soy milk business which seems to have a promising outlook, given the size of the addressable market.

The stock looked undervalued when we bought it, trading at a low-teen PER and below 2x PB. Unfortunately, the stock price fell over 40% from its peak on reporting weaker-than-expected soy milk sales and depressed sugar price caused by overproduction in Brazil and Thailand and weak sugar demand due to health concerns and introduction of sugar consumption taxes. The weaker-than-expected soy milk sales surprised and can be attributed to more competition from dairy milk products and other branded soy milk products.

At current depressed prices, QNS is undervalued, trading at 9x PER and 1.3x PB. As a Fast Moving Consumer Goods (FMCG) business, it trades at a significant discount to other FMCG groups in Vietnam – Kinh Do Frozen Food, the largest ice cream maker, is on 13x earnings; Masan group, which is big in instant noodles and sauces, is on 17x, and Vinamilk, 24x. We expect the stock to be re-rated when its soymilk business recovers, and continue to own it.

Oxley Holdings was a new position discussed in the March letter. It is a Singapore-based real estate developer with about 30% of its RNAV here. In a surprise announcement, on 6 July 2018, the Singapore authorities significantly tightened existing cooling measures by increasing buyers' additional stamp duty for Singaporeans and foreigners. To dissuade developers from entering the market, non-individual entities purchasing residential property, must pay an additional buyers' stamp duty of 25%, up from 15%. Only first-time Singapore citizen buyers were spared additional duty although the loan-to-value limit for individual borrowers was reduced by 5% across the board.

What does this mean for us? We remain holders in Oxley. Its Singapore landbank was acquired largely before the land prices moved, and it has been very aggressive launching the Singapore projects. Margins will no doubt be reduced by the new measures with the usual 20% net margin now likely to be reduced to yield 10-15%.

We are not too concerned about Oxley's high debt level as this will come down soon with cash from properties sold. On the day of the announcement, Oxley sold 575 out of 800 Riverfront Residences units during Phase 1, gleaning S$515 million in cashflow.

Oxley accounted for an overall drag of -0.45% to the portfolio return. It trades at a reduced RNAV of 0.4X. We will continue to monitor the position, as with all others in the portfolio, and will not hesitate to switch if we identify a flaw in our thesis or better candidates emerge.

Sunningdale Tech is one of the world's largest precision plastics companies, providing design and manufacture of moulds, precision engineering plastic parts, and value-added services such as laser etching, spray painting, and printing. This stock accounted for close to 1% loss in the portfolio for the quarter.

Sunningdale has strong engineering capabilities across a wide range of industries. It makes plastic parts like automotive car pedals, surgery tools for cataracts, and DNA sequencing machine parts. Over its 37-year history, it has built up a well-diversified portfolio of customers including blue chips like HP, Philips and Bosch.

The group has 20 facilities around the world, 8 of in China and 12 in SE Asia, India, Latvia, Mexico, and Brazil. With its global footprint, Sunningdale is able to service large global customers and support them across various regions.

We invested in Sunningdale as we were comfortable with its corporate governance, global footprint and diversified customer base across multiple industries, strong balance sheet, and cheap valuations.

The stock sold off sharply, down 35% after reporting disappointing 2018 1Q results on the consumer IT segment's decline, and FX loss's impact due to the weaker USD vs RMB, MYR, and SGD. There are also concerns over the trade tariff's impact on its business as it manufactures in China alongside peers with China facilities. We expect a better utilisation in the Consumer/IT segment in the 2H plus contribution from ramping up the new 15,000 sq m Penang facility in the 3Q. Moreover, the USD will no longer be a drag, having strengthened quite a lot in the last 3 months.

Sunningdale may also sell off a factory in Zhongshan, China, believed to have been purchased in 2007. We understand that a real estate broker was appointed to help sell it. If successful, this will generate a significant one-off gain, further strengthening an already very strong balance sheet.

With a current market cap of S$257 million, net assets of S$366 million, and net profit of S$31 million, the stock looks undervalued and we continue to own it. We note that Chairman Koh Boon Hwee, already a significant shareholder, purchased another 13 million shares at $1.71 in 2017, above the current market price of $1.35.

Current holdings

Our top 5 holdings are Oriental Watch, SBS Transit, ICBC, Jardine C&C, and Dah Sing Banking.

Oriental Watch recently announced sparkling FY18 results in June with profits hitting HK$138.6 million, almost 9x FY17's. While the top line was relatively flat at HK$2.89 billion, profit margins improved significantly as the proportion of direct in-store sales in Hong Kong increased at the expense of wholesale sales. Chinese tourist arrivals in Hong Kong and Macau drove the recovery in Hong Kong retail sales. As a result of lower discounts on watches sales, gross profit margin jumped from 16.2% in FY17 to 21.0% in FY18, and 25.5% in 2HFY18. Cheaper rental rates in Hong Kong helped boost the bottom line further.

The company declared a special dividend of HK cents 15, raising total FY18 dividends to HK cents 25, giving a dividend yield of over 10% at the current market price of HK$2.34/share. Oriental Watch is also in a net-net situation where the current market cap of HK$1.3 billion is lower than the combined value of cash and inventory of watches which total HK$2.0 billion after deducting all liabilities.

With greater connectivity in the Pearl River delta and relaxation over Chinese tourist arrivals in Hong Kong and Macau, Oriental Watch is well placed to benefit from the expected growth in this very vibrant region.

SBS Transit has been written about at length. The movie continues to unfold with very few surprises, unlike the rest of the market. SBS is a pure domestic Singapore land transport operator moving from an asset-heavy model to asset-light. With a passenger vehicle population fixed at 0% growth while Singapore's population expands 1%, the public transport operators have to shoulder the burden.

For 1Q 2018, SBS reported profit up 63% YoY while monthly EBITDA hit S$15 million. Ridership on the newly opened Downtown Line Phase 3 was slightly below the regulator's forecast but monthly or quarterly variations carry little weight with long term investors like us. There was also a $900,000 lift from increased rail advertising space. This marks the 9th straight quarter of EPS advance and we expect the next 3 quarters to hit similar profit growth as the March quarter.

The balance sheet continues to improve and we expect analysts to recognise what a cash gusher this stock is. Close to 50% of SBS Transit's EBITDA is commercial rental and advertising, the 2018 EBITDA should hit S$180 million with more upside if the Singapore rental and advertising market continues to stabilise. Meanwhile, enterprise value is S$940 million, implying a stock trading at 5x cash flow with minimal capital expenditure.

Based on our estimates, the stock is at a forward PE of 11x and dividend yield of 4.4%.

Jardine Cycle and Carriage ("JCNC") is an old business with large market cap of ~US$ 9 billion but poorly covered by analysts. It's been listed since 1969, and became a subsidiary of Jardine Matheson group in 2002. For the latter part of the 20th century, JCNC was a retailer and distributor known for its motor interest in Daimler Mercedes-Benz, Mitsubishi, and Proton vehicles. The Indonesian financial crisis allowed JCNC to take a large stake in Jakarta-listed Astra International in 2000. Astra, then as now, remains the largest automotive group in Indonesia in 2-wheelers (Honda) and 4-wheelers (Toyota and Daihatsu) with market share fluctuating around 50-60%. This acquisition doubled JCNC's profit and, by 2003, Astra accounted for 95% of the group's profit.

Not surprisingly, JCNC's stock, listed in Singapore, essentially trades in line with Astra International, listed in Jakarta. In the past 18 months, Astra's stock has languished as it lost some market share to Mitsubishi in Indonesian 4-wheelers. Automotive accounts for 50% of Astra's earnings with 25% from the heavy mining equipment company United Tractors, which has been doing rather well with the coal market's recovery.

We own JCNC as it's not really a pure Indonesian proxy any more. Some 10-15% of JCNC's earnings come from its legacy automotive dealerships (mainly Singapore) and another 20% from the fast-growing Vietnamese market, mainly Truong Hai Auto ("THACO"). THACO is one of Vietnam's leading auto manufacturers, assemblers and distributors, carrying brands like Mazda, Kia and Peugeot. JCNC also holds a 10% stake in Vietnam Dairy Products and an attributable 21% stake in Dai Quang Minh, a pure play real estate developer in Ho Chi Minh's Thu Thiem District, a new CBD for the old city. Combined, the two passive investments are worth 20% by asset value of JCNC's current depressed valuation.

We believe that, over the next 3-5 years, as JCNC's Vietnam investments bear fruit and earnings contribution from Vietnam rises, the market will de-couple its stock price from Astra. In the meantime, JCNC trades at an attractive 12x PE with a 3.6% dividend yield.

Industrial and Commercial Bank of China ("ICBC")'s stock price has fallen alongside the general sell-off in Shanghai and also on concern over the health of its US$2.1 trillion loan book. At current prices, it trades below 6x earnings and 0.8x book with 5.3% dividend yield.

ICBC made US$43 billion in profit last year and has a solid balance sheet with Tier 1 Capital Adequacy Ratio (CAR) of 12.8% and NPL ratio of 1.6%. Return on equity was 13.2% for 2017.

While we believe the reported NPL likely understates the true level, its current stock price has probably more than discounted this.

A bank with such a franchise and operational footprint in a growing economy deserves a much higher rating.

Dah Sing Banking Group ("DSB") – Established in 1947, Dah Sing Bank is a relatively small bank with 45 branches in Hong Kong. It is 75%-owned by Dah Sing Financial Holdings and controlled by the Wong family. It has a history of conservative loan underwriting and good risk management. DSB has strong CAR of 18.7% with core Tier 1 ratio of 13.4%, which is substantially above the minimum 8.5% requirement for core Tier 1. It reported a very good set of results for 2017 except for marking down its investment in an associate, Bank of Chongqing ("BOCQ"), a Chinese city commercial bank.

BOCQ accounts for HK$4.1 billion or 16% of DSB's HK$25.9 billion book value of equity. Management suggested that further impairment may be considered but we believe much of this has been factored into DSB's stock price. Meanwhile, HIBOR has turned since the start of the year and earnings should be supported by the expected net interest margin expansion for Hong Kong's banking industry.

DSB is one of the few remaining independent commercial banks and has been a rumoured takeover target from time to time. It trades at a PB of 0.9x. Historical transactions of Hong Kong banks have been completed at substantial premiums to book value. The 2 most recent ones – Wing Hang and Chong Hing – were done at 1.8x and 2.4x PB respectively.

Outlook

Following the imposition of a 25% tariff on US$34 billion of Chinese exports to US (with another US$16 billion to kick in during the third week of July) and China's immediate dollar-for-dollar retaliation, President Trump has threatened further escalation of the trade conflict by levying a 10% tariff on another US$200 billion of Chinese imports.

Some economists estimate that a trade war will shave about 0.5% off global GDP. While there will be some pain for both China and US, to put things in perspective, exports only represent 19% of China's US$12 trillion economy with US$250 billion constituting 2%. Unlike 2006, when exports made up 35% of its GDP, China is no longer as dependent on exports.

As an outspoken protectionist, America-First President, we cannot rule out the possibility of the conflict deteriorating. Still, we expect sanity to ultimately prevail when it is evident that such a trade policy will prove self-defeating as US consumers and businesses also suffer the consequences. The conflict may well wind down after some negotiated settlement and the Trump team is able to claim 'victory'.

Trade war or no trade war, we see China remaining the fastest-growing large economy for some time and spur further growth in the region. It is worth noting that, despite more than 30 years of rapid economic development, China's per capita GDP is only US$8,700, relatively

poor vs Taiwan's US$25,000, Korea's US$30,000, and Japan's US$38,000. There's still ample room to catch up.

Trade wars are, however, not the only 'known unknown'. As major central banks embark on reversing years of Quantitative Easing (QE) and the Fed adopts a more neutral to possibly tightening bias, interest rates are likely to rise further.

In China, there is also concern over how the process of de-leveraging the Chinese economy will play out. We have seen, and are likely to see, more corporate bond defaults and rising Non-Performing Loans (NPL) as more problems in the shadow banking system come to light. Nevertheless, we consider the problems manageable as the central government has the tools and resources to deal with them.

The combination of rising rates and strong dollar has triggered fears of weakness in emerging market currencies, leading to further withdrawal of funds from these markets. As Table 3 below lays out, except for Vietnam, which has seen massive net inflows, there is a net foreign exit from the regional stock markets.

	Index Total Return % (US$)	**Jan to Jun 2018 Net Foreign Investment (US$ billion)**
Philippines (PComp Index)	- 15.0	- 1.22
Thailand (SET Index)	- 8.4	- 5.64
Indonesia (JCI Index)	- 11.4	- 3.57
Vietnam (VN Index)	- 1.3	+ 1.56

Table 2: 6 months net foreign outflows from Emerging ASEAN. Source: Bloomberg

While the above-mentioned concerns have legitimate roots, we believe that markets have, to a large extent, priced in these worries.

Following the painful lessons learned after the 1997 Asian Financial Crisis, ASEAN economies have become a lot more resilient. Macro-economic management has improved with greater fiscal discipline, higher foreign exchange reserves, smaller current account deficits, more flexible foreign exchange policies, and less leverage as well as currency mismatches in corporate balance sheets. Except for Philippines and Indonesia, ASEAN countries like Thailand, Malaysia, and Vietnam all run comfortable current account surpluses. Recently, the Indonesian Central Bank was willing to hike rates not once but three times to defend the Rupiah. We note also that, over the years, intra-regional trade and investment have been on the rise and the region is not as dependent on the US as it used to be.

The recent selloff in various ASEAN markets, though painful in the short term, creates buying opportunities in our view. Valuations have corrected to average level of last 15 years with forward PER now at about 13x.

The ASEAN countries would be relatively less affected by the US-China trade dispute and indeed may be net beneficiaries should the conflict be prolonged and business shift production to other production centres outside China.

Philippines – The Philippine Composite Index hit a 5-year low on both PE and PB terms, primarily on fear of peso weakness. Several interesting consumer franchises have become available at attractive valuations and our team is hard at work reviewing this. We will provide details in the next letter. In the meantime, Filipino domestic consumption remains strong, retail sales are growing at 3.5%. Overseas foreign worker remittances continue to show strong growth momentum, rising 4.4% year to date off a high base in 2017.

Indonesia – Like the Philippines, the Jakarta Composite has traded off and is at a 5-year low in price-earnings term. Several moat-type companies are also approaching 5-year price to book and earnings multiple lows. Indonesian banks are also 1 standard deviation below the 10-year average.

For long term-minded investors, we believe this current sell-off could be a good opportunity to sow the seeds for the next harvest. We have kept some 'dry powder' – indeed, we have been harvesting from some Singapore positions and will likely be scaling into some of the targets we have identified over the next few months.

Annual Investors' meeting

Finally, the Annual Investors' meeting will be held **on Wednesday, 10 October 2018, at 6.30pm.**

Please mark the date in your calendar (friends are invited too). The venue this year is at **Room 801, NTUC Centre, 1 Marina Boulevard, Singapore 018989.** Further details are attached.

Daniel Chan

Melvin Tan

TJ Tan

Alexis Tran

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.

2018 DCG Annual Investors' meeting

10 October 2018, Wednesday, 6.30 pm

NTUC Centre

Room 801, Level 8

1 Marina Boulevard, Singapore 018989

To attend, please email or call Ms. Diana Tung by Monday, 8th October 2018 -

Email: dianatung@dcginvest.com

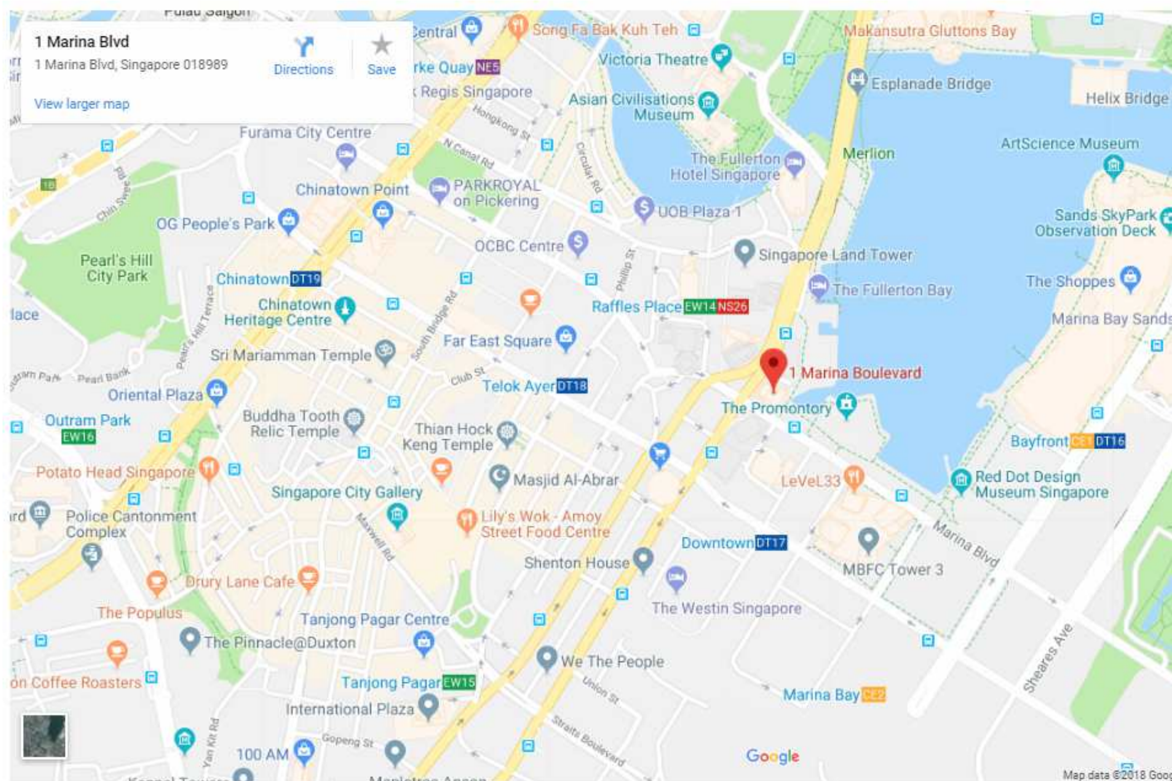
Phone: +65 6733 7270

How to get to NTUC Centre

MRT Raffles Place MRT Exit C (Ocean Financial Centre)

BUS OUE Bayfront @ Collyer Quay/ Opp Clifford Centre

(Service Nos 10, 10e, 57, 70, 75, 100, 107, 128, 130, 131, 162, 167, 196, 196e, 700)



Map data: Google, Urban Redevelopment Authority