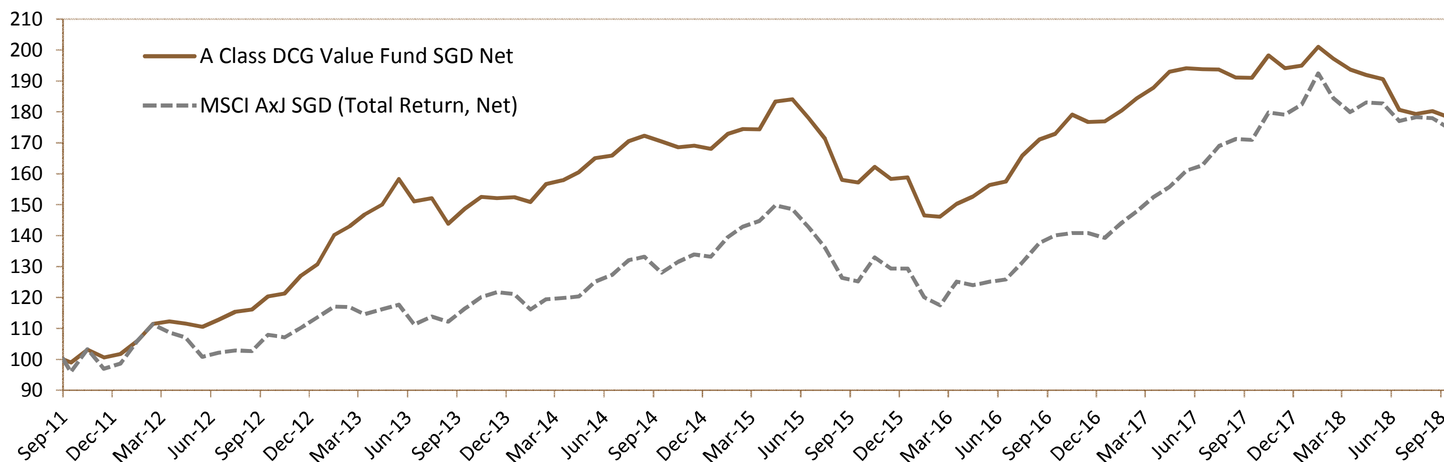
DCG Asia Value Fund

September 2018
NAV: SGD178.3 ('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	-0.8	0.5	-1.0				-8.5	
Index(1)	5.6	-4.1	-2.5	1.7	-0.2	-3.1	0.7	-0.2	-1.8					-4.1
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) (%)													**78.3**	**74.8**

*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, 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 (%)	8.6	8.2
Standard Deviation (%)	9.6	11.3
Sharpe Ratio (x)	0.69	0.55
Sortino Ratio (x)	1.19	0.92
Information Ratio (x)	0.04	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	45
Top 10 holdings (%)	38.6
Top 20 holdings (%)	65.2

Fund Exposure

Country Exposure (%)	
HK/ China	33.1
Singapore	24.8
Philippines	8.0
Thailand	7.3
Korea	4.7
Taiwan	4.1
Vietnam	3.3
Indonesia	2.9
Sri Lanka	2.4
Malaysia	1.3
Cash	8.2
Total	100.0

Sector Exposure (%)	
Financials	26.1
Consumer Discretionary	16.3
Industrials	14.2
Information Technology	12.6
Consumer Staples	11.2
Real Estate	5.4
Communication Services	4.9
Energy	1.0
Cash	8.2
Total	100.0

Fund Details

Size (equities)[5]	
Small Cap (<US$1b)	20
Mid Cap (US$1b-$5b)	9
Large Cap (>US$5b)	14
Total	43

(5) Median market capitalization US$1,217 mil

(5) Holdings exclude one bond and one warrant

Top 5 Holdings

SBS Transit Ltd
San Miguel Food and Beverage Inc
Jardine Cycle & Carriage Ltd
Industrial & Commercial Bank of China Ltd
Ping An Insurance Group Co of China 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

Contact Information

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DCG Asia Value Fund

September 2018
NAV: SGD93.4 ('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	-0.7	0.6	-1.0				-7.5	
Index[1]	5.6	-4.1	-2.5	1.7	-0.2	-3.1	0.7	-0.2	-1.8					-4.1
2017							0.0	-1.2	0.1	3.6	-1.8	0.5	1.0	12.0
Inception to Date[2] (%)													**-6.6**	**7.4**

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(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.

DCG Asia Value Fund

September 2018
NAV: USD101.2 ('A' Class)

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	-0.7	-0.3	-0.6				-10.5	
Index[1]	7.6	-5.0	-1.5	0.7	-1.3	-4.8	0.8	-1.0	-1.4					-6.3
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] (%)													**1.2**	**21.8**

*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's NAV closed the quarter ended 30 September down 1.0% and brought the calendar year-to-date loss to 8.6%.

The MSCI Asia Ex Japan Index registered a fall of similar magnitude for the quarter but was down a smaller 4.1% year-to-date.

At 30 September, the portfolio comprised 43 stocks and 8.2% in cash.

In the quarter, we eliminated 8 and added 10 new names including four new positions in Thailand.

Market Review

US-China trade tension remained one of the dominant macro factors that affected Asian stock markets.

Since we wrote about the ongoing US-China trade dispute in our annual letter, things have deteriorated on that front. The Trump administration started levying a 10% tariff on another US$200 billion of Chinese imports on 24 September and intends to raise it to 25% by year-end. It also threatened to impose tariffs on an additional US$267 billion of Chinese imports if China retaliates. China responded with 5-10% levies on US$60 billion of US products and looks likely to retaliate again in response to further US actions. Despite the huge trade figures, the economic impact of this trade war on China's economy is estimated at 1.5-1.7% of GDP if the entire exports to US are hit with a 25% tariff.

There appears to be a growing narrative that this is really about a long-term titanic struggle to contain China's rise and ambitions following the release of the 'Made in China 2025' strategy in May 2015. This shift in America's thinking may well survive Trump's Presidency. Thus, a protracted struggle with economic and geopolitical implications must now be contemplated and factored in our assessment of the investment outlook for this region.

The other major factors are rising US interest rates and strong dollar which hit emerging markets (EM), especially those with weak financial situations like Venezuela, Argentina, and Turkey. Some contagion effect was felt in Asian currencies, notably the Indian Rupee, Indonesian Rupiah and Philippine Peso, down 10.2%, 9.9%, and 8.4% against the USD year-to-date respectively.

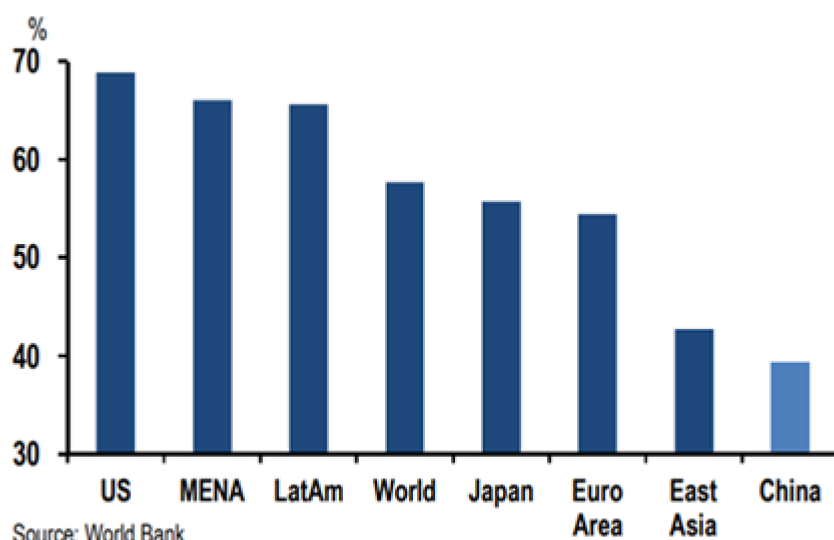
Fear of more currency losses likely caused further outflows from the region. Despite 5 rate hikes by Bank Indonesia, the Rupiah remains weak, crossing the 15,000/USD barrier in recent weeks. The Philippine stock market was the region's worst performer, falling 18.4% in SGD terms year-to-date.

With the current elevated oil prices and possible further rises on Iran and Venezuela's impending supply reduction, Asian oil importing countries like Indonesia, India, and

Philippines face the prospect of wider current account deficits. We have some exposure to Indonesia and Philippines (2.9% and 8.0% respectively) but don't expect the currencies to depreciate much more from current levels.

Now that America has thrown down the gauntlet, how will China respond? We see more of the same! China will continue to open up her economy to more foreign investment; stimulate private consumption, which makes up less than 40% of GDP vs almost 70% in the US; improve the economic infrastructure; promote more innovation and basic R&D; clean up the environment; and encourage higher quality economic growth.

Figure 1: Private Consumption to GDP (2016)



Despite having grown its economy at a phenomenal 15.8% average over the last 32 years, China remains a relatively poor country with GDP per capita only matching Malaysia's. Many parts of China remain underdeveloped, e.g, Sichuan and Henan, with populations of 87 million and 94 million respectively, have only attained per capita GDP of below US$7,000 compared to rich coastal economies like Jiangsu's US$18,570 and Guangdong's US$12,000.

At US$13 trillion and rising, China is already a huge economy. Moreover, as pointed out in our last letter, it is no longer as dependent on exports as 20 years ago.

With low government debt and US$3 trillion in reserves, China has many levers it can pull to overcome the drag from US tariffs. The People's Bank of China recently cut its RRR by 1%, injecting over RMB750 billion into the banking system.

Xi Jinping's Belt and Road Initiative (BRI) remains an important part of China's longer-term growth strategy. Despite some problems in implementation, the basic thrust is unlikely to be thwarted.

As more BRI projects are launched, greater connectivity will stimulate growth throughout the entire region.

China continues to invest prodigiously in education. An HSBC report noted that each year, 7 million graduates enter the workforce. Of these, 4.7 million are trained in science, technology, engineering, and mathematics, more than the combined total of the next six countries – India, US, Russia, Iran, Indonesia, and Japan. China is now a major player in artificial intelligence and is making inroads into fields like pharmaceuticals, medical services, robotics, and aviation.

Recent developments, we believe, will only strengthen China's resolve to improve its competitiveness, attain greater self-sufficiency, and move up the value chain.

Growing Intra-Asia Trade

While trade with the world's largest economy – the US – is certainly important, China's trade with emerging markets is even more so. As pointed out in the HSBC study, China's exports to the EM make up nearly 60% of total exports, more than the combined share of US (19%), Eurozone (16%), and Japan (6%).

Just a 1.3% faster growth rate in EM trade will fully offset any slowing due to higher US tariffs.

US trade policy is likely to drive the China-EM link further. The trend of growing Intra-Asia trade and investment has, in fact, been ongoing for many years, as seen in the table below.

Table 1: Growing Intra-Asia trade – Exports to Asia as % of total exports, 1997 and 2017

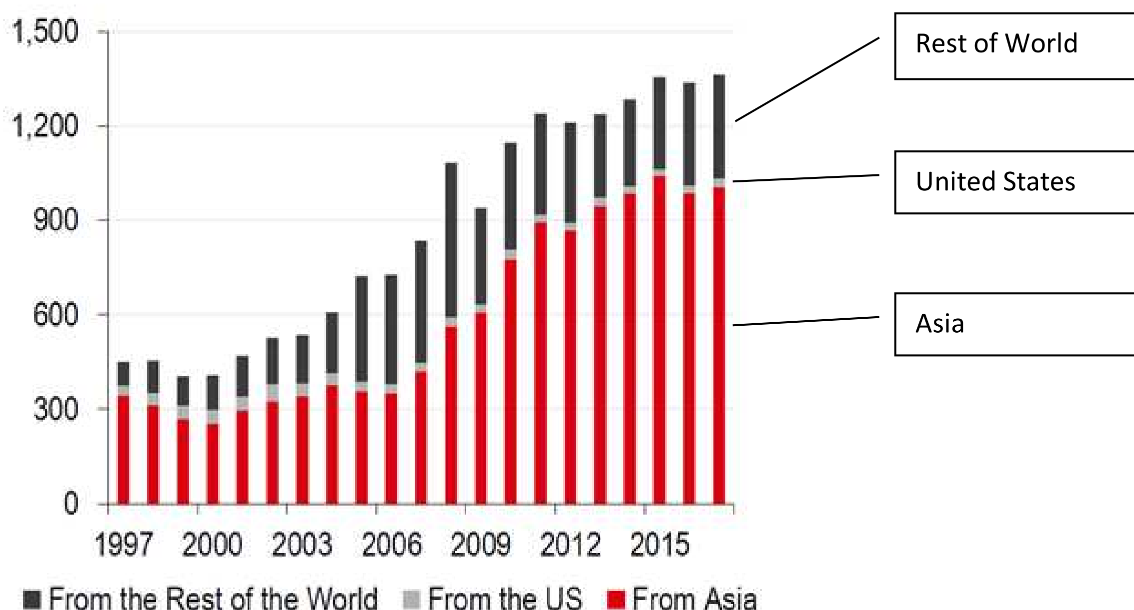
	1997	2017
China	50.9	42.4
Hong Kong	59.9	74.6
India	25.0	32.0
Indonesia	67.1	69.0
Malaysia	59.0	66.7
Korea	47.0	59.0
Philippines	42.6	64.9
Singapore	66.8	74.9
Taiwan	49.6	72.4
Thailand	51.9	60.0
Japan	40.3	54.7

Source: Haver Analytics, Asianomics Group

Except India, almost every Asian economy's trade with China and other Asian countries make up over half their total exports, and almost every Asian country trades more with China than the US.

It is also interesting to note that the lion's share of foreign direct investment going into China over the past two decades originated not from the US or Europe but from Asia – Japan, Korea, Taiwan, Hong Kong, Singapore, and others.

Figure 2: FDI into China, annual, USDbn



While the US has been raising trade barriers everywhere, within ASEAN, barriers have been steadily reduced and product standards increasingly harmonised.

ASEAN countries with good infrastructure and lower labour costs present an attractive alternative manufacturing base to China, where wages have risen considerably over the last few years. Part of the global supply chain may thus shift to SE Asia.

Solar panels are a good case study of what may happen when tariffs are levied. During the Lehman crisis, China aggressively expanded solar panel manufacturing. These were exported mainly to the US where the percentage of solar equipment imported rose to 70% in 2011. In 2012, the US levied a 31% tariff to restrict solar equipment sales from China. Over the next few years, the supply chain shifted to Malaysia and other countries and, by 2016, the share of Chinese imports of solar equipment fell to 20%.

As the Chinese economy continues to grow in the coming years, albeit at a slower pace, so will ASEAN in tandem. We are also positive on ASEAN markets due to their large and young population with income levels in countries like the Philippines and Indonesia hitting the sweet spot of US$3,000-4,000, which usually portends higher discretionary spending.

Stock Highlights

San Miguel Food and Beverage – SMFB

We recently added San Miguel Food and Beverage (SMFB) into the portfolio. SMFB is the dominant beer company and a major player in the foods business in the Philippines.

San Miguel traces its roots to 1890, when a group of Spaniards opened the first brewery in Manila. The company dominates the beer market with a phenomenal 90% market share, thanks to its strong brand equity and history in the market. Coupled with a strong distribution network, SMFB enjoys lower per unit marketing and selling expenses. This makes it hard for other brands to come into the market and gives it strong pricing power.

SMFB is the result of a corporate restructuring exercise in Nov 2017 when San Miguel Corp (SMC), the holding company, spun off the brewery and food business into a separate listco. This is done by injecting its 51% stake of the brewery (other shareholder is Kirin of Japan) and 75% stake in its gin business called Ginebra (GSMI) into its listed subsidiary San Miguel Pure Food (PF).

Post-spin-off, SMFB's profit mix will comprise brewery (62%), food (34%) and gin (4%). The food business comprises: poultry processing of chilled and frozen meats, processed meats like nuggets, hot dogs, and other ready-to-eat products; and a smaller contribution from flour milling.

We like the stock for its strong beer brand and large addressable market with a population of 100 million and growing. Alcohol consumption per capita in the Philippines is still low at 6.6 liters a year vs South Korea's 10.2, Vietnam's 8.3, and Thailand's 8.3.

The stock currently trades at a forward EV/EBITDA of 11-12x, a huge discount to its regional peers despite its growth potential and market dominance. In comparison, Chinese breweries like Tsingtao and China Resource trade at 15x and 19x, respectively, with lower margins and ROE. Carlsberg Malaysia and Heineken Malaysia, which operate in a more mature economy with slower growth, trade at an EV/EBITDA of 16x and 13x, respectively. Saigon Beer, Vietnam's largest brewery was recently purchased by Thai Beverage at 38x EV/EBITDA!

Ping An Insurance Group

We have invested in Ping An Insurance for some time. We are positive on the long-term prospects of China's insurance industry with a penetration rate of insurance still low at 2.4% of GDP compared to more developed markets' 5-13%. As the Chinese grow wealthier over the coming years, there will be increasing demand not only for protection but also for health and savings products.

Ping An has 4 main businesses: life insurance (~ 63% of operating profit), non-life insurance (16%), banking (4%), and others (17%). Its agency sales force is the second largest in China after state-owned China Life and is widely considered the best-run in China. Ping An's agency sales will keep driving increased protection products. We value this business at 2x

Embedded Value, conservatively estimated, which is about HKD70 a share, close to its current share price.

The non-life operation, which has generally run at a 96% combined ratio, is profitable and steadily growing in double digits. Ping An should continue to gain market share as a pan-China P&C insurer at the expense of regional peers. This business adds about HKD10 a share in valuation to the group. Other businesses include securities, asset management, and fintech (such as Good Doctor, ZhongAn insurance, and Lufax).

We see the market re-rating Ping An as it slowly harvests various fintech investments including Lufax and other payoffs from big investments being made in Artificial Intelligence.

Ping An trades at 1.9x Book, 1.1x EV, and provides a trailing dividend yield of almost 2.6%.

Outlook

With the onset of the trade war, Asia's growth is likely to slow alongside the US, Europe, and elsewhere. Still, our central thesis – that Asia remains the world's fastest-growth region – will not be derailed by this new development. China will keep developing its economy and intra-Asia trade and investment will still grow even bigger.

We consider the trade war's economic impact largely reflected in the current depressed valuations. While further weakness cannot be ruled out, with US interest rates headed higher and US Dollar remaining strong, as long-term investors, we tend to view such weaknesses as a buying opportunity.

On this note, market timing is difficult. At the recently concluded annual meeting, some investors asked if now is the time to buy or to sit on the sidelines. We won't really know for sure but what we do know is that client accounts that topped up regularly during the past 2 downturns (2013 and 2015) have outperformed those that didn't. For this reason, in 2017, we reduced the monthly minimum subscription to S$10,000 to allow like-minded clients to make regular monthly subscriptions and average down their cost of subscription in the fund. It bears reminding that Dollar Cost Averaging is a technique of regularly buying a fixed dollar amount of a particular investment regardless of price. Thus, investors purchase more shares when prices are depressed, and fewer when prices rise. The same technique works on funds.

On our part, we remain prudently and conservatively positioned. Our target list of opportunities continues to widen as valuations decline. The companies we invest in tend to have strong balance sheets that can weather a protracted trade war, and indeed, are in businesses that we believe will still do well in 3 to 5 years.

Beefing up the team

DCG will welcome two seasoned professionals, William Toh and Paul Tan, on 1 December.

William is the current Managing Partner and Chief Investment Officer at New Harbour Capital Partners. He has 20 years of investment management experience, including stints at GIC, and was Chief Investment Officer of Asia Life from 2001 to 2006, managing the group's insurance assets and shareholders' funds. William's philosophy is to invest in businesses with a sustainable competitive edge which are worth substantially more than their current prices imply. This is a good fit with our value-focused approach. We expect William to significantly augment the team's research and portfolio management capabilities.

Paul has vast experience in corporate business development and client coverage. He will help manage DCG's client servicing and business development activities.

Daniel Chan

Melvin Tan

TJ Tan

Alexis Tran

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