DCG Asia Value Fund

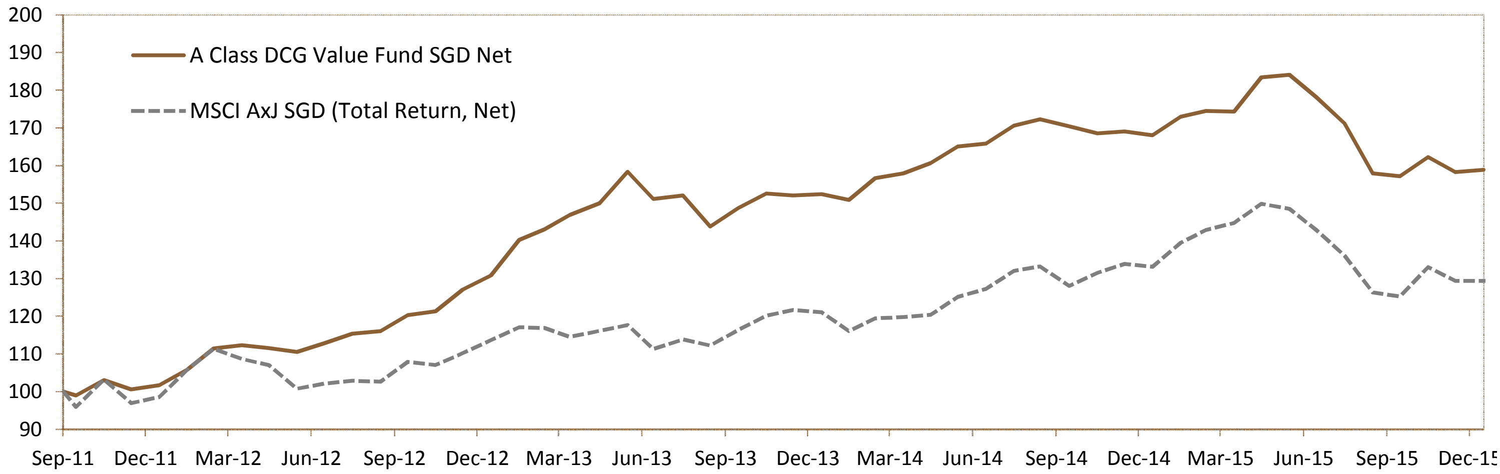
December 2015
NAV: SGD158.8 ('A' Class)

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	YTD	MSCI AxJ YTD
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%	
MSCI AxJ	4.8%	2.4%	1.3%	3.5%	-0.9%	-3.8%	-4.7%	-7.1%	-0.9%	6.2%	-2.7%	0.0%		-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)													58.8%	29.4%

*Current year returns are unaudited. Past performance is not indicative of future results. References to the MSCI AxJ SGD index are based upon published results net of fund expenses, management fees and incentive reallocation. The net return shows an accrual of incentive allocation every month, although the fee is charged at year end. Based on an original investor subject to stated fees (i.e. 1.25% management fee and 12.5% incentive fee).

(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	11.4%	6.2%
Standard Deviation	9.9%	11.9%
Sharpe Ratio	0.94x	0.35x
Sortino Ratio	1.71x	0.56x
Information Ratio	0.71x	N/A
Peak to Trough	-14.7%	N/A

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

Portfolio Concentration

No. of holdings	48
Top 10 holdings	26.0%
Top 20 holdings	46.4%

Fund Exposure

Country Exposure	
HK/ China	44.2%
Singapore	11.2%
Indonesia	7.1%
Vietnam	4.4%
Thailand	3.7%
Korea	2.2%
Philippines	1.7%
Taiwan	1.5%
Sri Lanka	1.5%
Malaysia	0.9%
Cash	21.5%
Total	100.0%

Sector Exposure	
Financials	31.4%
Consumer Discretionary	15.4%
Industrials	11.9%
Information Technology	8.6%
Consumer Staples	7.2%
Energy	2.9%
Materials	1.1%
Cash	21.5%
Total	100.0%

Fund Details

Size (equities)[4]	
Small Cap (<US$1b)	32
Mid Cap (US$1b-$5b)	5
Large Cap (>US$5b)	11
Total	48

(4) Median market capitalization US$459 mil

Top 5 Holdings

Hui Xian REIT
HKR International
Luk Fook Holdings International
Changan Minsheng APLL Logistics
AIA Group

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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Dear Investor,

Performance

The Fund's NAV (A Share SGD Class) ended the fourth quarter and 2015 at $158.83. This meant a 1.1% rise for the quarter, underperforming the benchmark's 3.3% gain, and, for 2015, a 5.4% fall. The benchmark slid a lesser 3.2% with Tencent's (the second largest component stock in the Index) 36.0% leap masking an otherwise bigger drop.

We do not own this high-flying stock, and attribute the underperformance to some of our Hong Kong, Indonesia, and Singapore holdings including Luk Fook Holdings and Tiga Pilar Sejahtera, and energy related stocks such as Ezion Holdings and Pacific Radiance.

It was a tale of two rather different halves with the benchmark rising 7.2%, then erasing all gains to register an almost 10% loss in the second half.

As pointed out in our previous letter, stock markets were troubled by continuing worries over China's slowing growth, and U.S. interest rate increases. These concerns persisted – and indeed worsened – as the sharp slide in energy and other commodities' prices arrow a more rapid deceleration of economic activity than initially believed. Corporate results also disappointed. Several well-known large-asset managers specializing in Asian equities were believed to be selling quite heavily to meet heavy redemptions. The Institute of International Finance reported that, for 2H 2015, funds outflows from emerging market debt and equities by foreign investors amounted to US$46 billion.

Portfolio Update

New names added were mainly in Hong Kong/China, Singapore and Vietnam while those disposed were in HK/China and Singapore. The portfolio is now more concentrated with 48 names.

Among the disposals were Ezion Holdings, Wharf Holdings, and Universal Robina Corp.

Ezion Holdings' 3Q 15 net profit fell 38% with eight of its 26 vessels now dry docked. With the collapse of crude oil prices, customers are taking longer to deploy vessels and rates are under pressure. With a debt to equity ratio of 115%, we are concerned about Ezion's financial stability should oil prices remain weak for an extended period and have sold our remaining holdings. Ezion had been one of our major contributors and we had pared our exposure on earlier strength when it was reporting strong earnings growth.

Wharf Holdings reported a weak set of retail sales for two of its largest malls in Hong Kong, Harbour City (-19% yoy) and Times Square (-20% yoy) in 3Q 2015. Although outbound travel volume from China grew 12% in the 1H 2015, more Chinese tourists now travel to further locations such as South Korea and Thailand, and fewer to Hong Kong. The stronger HKD vs

RMB made Hong Kong less attractive whereas the weakening KRW, JPY, Thai Baht, and other emerging market currencies made travel there cheaper. Rental rates in Wharf's shopping malls are likely to be revised down unless retail sales improve, but this looks unlikely in the near term.

Universal Robina Corporation ("URC") is a well-run branded consumer food company in the Philippines with a diversified product portfolio of coffee mix, confectionery, noodles, ready-to-drink teas, and snacks with dominant market share ("ms") in each product category. On strong domestic consumption growth, URC's domestic sales have advanced robustly while profit margins expanded steadily from better scale economies and cheaper commodity prices. Sales of consumer food in Vietnam, Thailand, and Indonesia also gained traction. URC is the second largest ready-to-drink tea brand in Vietnam with a 35% ms, and the biggest seller of wafers and biscuits in Thailand with 24% and 26% ms respectively. We invested in URC in early 2012 when it traded at a low-teens price-to-earnings ratio ("PER"). In the past three years, its stock price appreciated significantly. While we believe the firm can keep delivering decent growth on rising disposable income of South East Asia's growing middle class, at 180 peso/share, we find valuation of FY15 PER of 31x too demanding and decided to exit our position.

Among the additions are Ajisen China Holdings and Mapletree Greater China Commercial Trust.

Ajisen China Holdings Limited ("Ajisen") operates 664 Japanese ramen restaurants in Hong Kong and China (625 on the mainland and the rest in Hong Kong/Taiwan). 90% of EBIT comes from the PRC and 10% from Hong Kong operations and Ajisen's PRC packaged noodle manufacturing. Per customer spend at its restaurants has stagnated in the past three years and table turnover dropped 40% from IPO days of 6.0x/day to 3.4x. The stock price has correspondingly collapsed from 2011's HKD17.60 to today's HKD3.40 levels, punishing many, including some fund managers that we admire. So what do we like about the business?

Ajisen has a market capitalization of HKD3.7 billion with a clean balance sheet. It has HKD1.4 billion net cash in hand, HKD500 million in investments (mainly passive stake in Baidu online Delivery) and collects rent on some HKD500 million of commercial investment properties. Valuing its 664 outlets at a replacement cost of HKD1.5 million/outlet brings us to a book value of HKD3.5 billion. Its brand awareness among Chinese consumers, central factories (that can support 1500+ outlets) and noodle manufacturing provide our margin of safety. The immediate lift for restaurant productivity is to boost takeaway services (offered by two-thirds of its restaurants and rising). The Baidu Delivery investment and partnership helps.

The biggest risk is cash depletion. Thankfully, Ajisen's management is more disciplined with curating store mix, and outlet expansion is kept tight. Major planned capital expenditure will focus on improving in-outlet Wi-Fi and a tablet ordering system to further raise productivity. This investment is small and is expected to cost about the same as opening 10 new restaurants. The largely completed central factories have a potential capacity to support 1,800 stores (part of the IPO blue-sky plans), giving it plenty of space to pick up store plantings if and when consumer conditions improve. Meanwhile, net profit should run at a compressed HKD200 to HKD300 million p.a. with free cash flow ("FCF") of more than HKD400 million p.a., giving an ex-cash PER of 9x, 1.07x PBR, 9x FCF and a comfortable 4+% dividend yield.

Mapletree Greater China Commercial Trust ("MAGIC") is a stock we owned previously. We bought after its price fell back to attractive levels. MAGIC owns and operates the Festival Walk shopping mall in Hong Kong, and premium Grade A office buildings in prime locations in Beijing and Shanghai, namely Gateway Plaza and Sandhill Plaza. In 9M15, the portfolio occupancy rate is over 98% with rental uplift of 20% to 25%. Despite Hong Kong's weak retail sales environment in 2015, Festival Walk, as a suburban mall catering to local shoppers, still saw footfall and tenant sales incline. Meanwhile, office supply in prime locations in Beijing and Shanghai remains tight, which bodes well for Gateway Plaza and Sandhill Plaza. On funding, MAGIC's gearing ratio is 41% with an all-in borrowing cost of 2.64% and average term to maturity of 2.45 years. Its debt maturity profile is well staggered over the next 4 years. With all assets unencumbered and Moody's Baa1 Stable corporate rating, the trust enjoys bargaining power and financial flexibility and gives an attractive 8% dividend yield.

Luk Fook Holdings is one of our top five holdings. It operates retail jewellery stores across Hong Kong and China with 48/10/90 stores across Hong Kong/Macau/PRC and 1,256 licenced stores in China. Its store network is roughly two-thirds of the market No. 1's. Since 2012, the anti-corruption exercise, coupled with poorer consumer sentiment, has dragged all three Hong Kong-listed jewellers' operations. In the meantime, continued same-store-sales contraction plus high Hong Kong rents have pressured earnings to Sept 2015. Luk Fook trades at a modest 1.1x price-to-book ratio ("PBR"), about 9x FY16 PER, and recurring dividend yield of 4%.

We still prefer Luk Fook's brand positioning as the 'affordable' Hong Kong jewellery brand to mainland consumers. Average ticket sales onshore has stayed around RMB3,000 for five years despite annual wage increases in the teens in the PRC. Average gem set (diamond, jadeite, etc) ticket sales onshore is about RMB6,000 to RMB7,000, far more affordable to the man in the street than five years ago. China's earnings contribution is rising to about 50% of group profit to buffer any continued weakness in Macau and Hong Kong.

In 4Q 2015, **HKR International** declared an interim dividend by distribution in specie of its listed subsidiary Hanison Construction Holdings Ltd (896:HK) shares. This translated to approximately HKD0.35 of Hanison shares/HKR share or 8.8% dividend at the announcement date.

In November 2015, we met **Tiga Pilar** in Jakarta for a business update. For 9M 2015, the company delivered 22% revenue growth but profit inched up 3%. The earnings drag was due to the palm oil division's losses as CPO prices slid from over IDR9,000/ton in Jan 2015 to IDR5,600/ton in August 2015.

The rice and consumer food divisions delivered stellar results with sales surging above 30%, driven by its new marketing and distribution strategy focused on expanding and penetrating deeper into traditional trade channels nationwide. Basic food division, which produces dried noodle and vermicelli saw some sales decline as its production line upgraded to produce instant vermicelli. In profitability, food manufacturing continues to deliver a healthy 14.6% EBIT margin while rice division slightly improved to 8.4%. Into 2016, barring unforeseen circumstances, we expect Tiga Pilar to deliver growth and improved profitability. In December 2015, the company announced its intention to sell down its 78.0% Golden Plantation stake to 49.9% to free up capital for investment in rice and consumer food.

We continue to like Tiga Pilar for its expanding snack food business and potential to gain market share in Indonesia's highly fragmented rice market.

Outlook

It was an inauspicious start to the new year with the first trading day witnessing a global market selloff triggered by a 7% crash of the Chinese stock markets after the latest PMI readings renewed concerns about the health of China's economy.

Investors were also alarmed by further RMB weakening and continuing capital outflows. With the U.S. Federal Reserve's interest rate hike announced last December and more in store, the concern is that the USD may strengthen further, putting pressure on companies with sizeable USD debt built up during the many years of ultra-low interest rates.

Besides China's economic slowing, recent geo-political developments in the Middle East, Korean peninsula, and South China Sea have added to the list of worries.

Despite the 14% fall since 25 December 2015, the Shanghai Composite is still not cheap, trading at a PER of 16.8x and the Shenzhen Index at an even more scary 45x PER. It should not surprise us if these markets were to fall further.

However, note that, in China, there has not historically been a strong relationship between real economic activity and the stock market. This is partly because only a small percentage of the population is active in the bourse and stock market capitalization is still low vs the economy.

While many things can go wrong, we should not be blindsided to the things that can also come right – 'benign surprises' as one journalist puts it. The oil price collapse over the past 17 months means an effective wealth transfer of more than US$2 trillion from oil producers to oil consumers including those in Asia – India, China, Japan, and Korea. The ASEAN Economic Community officially came into existence this year and China's One Belt, One Road vision will, over time, enhance the economic potential of the region by speeding infrastructure development.

Chinese authorities retain many levers to manage the slowdown – monetary policy tools like banks' reserve requirement ratios; interest rates, fiscal policy tools with its healthy reserves, huge domestic savings, and very low central government debt. China is now a two-speed economy with the old economy of manufacturing, especially steel, cement, aluminum weighed down by excess capacity, but with the consumption-related new economy experiencing vibrant growth. Anecdotal evidence is seen in the surge in outbound travel, cinema ticket sales crossing US$6 billion, and Alibaba's US$14.3 billion Singles' Day sales which was a 54% jump on last year's. China is the world's most web-connected economy with over 640 million internet users.

The broad market selloff in the last few quarters in other Asian bourses have made valuation a lot more attractive especially on the price-to-book measure as shown in the following table:

Index Code	Market	PE ratio (X)			PB ratio (X)	Div Yld (%)
		Trailing	2016E	2017E	Trailing	Trailing
HSCEI	China Offshore	7.2	6.5	5.9	1.0	4.1
HSI	Hong Kong	9.7	10.0	9.0	1.2	3.9
FSSTI	Singapore	13.3	11.4	10.7	1.2	4.2
SET	Thailand	16.8	12.6	11.2	1.7	3.6
PCOMP	Philippines	19.9	15.8	14.3	2.5	2.0
FBMKLCI	Malaysia	18.0	15.4	14.2	1.8	3.1
JCI	Indonesia	26.8	15.3	13.3	2.3	2.2
KOSPI	Korea	14.2	10.7	9.7	0.9	1.3
TWSE	Taiwan	13.3	11.5	10.6	1.5	4.0
NIFTY	India	20.8	17.1	14.2	2.7	1.4
MXASJ	Asia ex-Japan	11.5	11.0	9.8	1.4	2.8
SPX	USA	18.3	15.7	13.9	2.8	2.1
SXXP	Europe	23.4	14.4	12.8	1.8	3.5
TPX	Japan	16.5	14.1	12.8	1.3	1.8

Source: Bloomberg, as at 31 Dec 2015

With the further falls in past two weeks, Singapore, Hong Kong and Korea are now at about book values which, in the past, had proven to be good support levels.

We are studying several new ideas which we may add to our portfolio. As always, we seek well-run businesses that are selling at attractive prices. Easier said than done, of course. Any analysis must be done in the context of the economic and business environment that we are in. We do not formulate investment strategy based on forecasting macro-economic conditions. Rather, we take it as it is but allow a range of possible outcomes and evaluate how well or poorly a potential investment candidate may perform in those conditions.

Importantly, we must take into account all rapid changes that can hugely impact traditional businesses. The internet and other technological advances are rapidly changing the way people live, work and play. More and more are shopping on websites. Information is widely available facilitating price discovery. As for forecasting we would like to share an interesting book on 'Superforecasting'.

Holiday book review

Superforecasting: The Art and Science of Prediction

As part of our new year's resolution, we want to jack up our pace of learning by reading more books. We hope our book reviews will perk your own interest to learn. This quarter's book review is of 'Superforecasting: The Art and Science of Prediction' ("Superforecasting") by University of Pennsylvania Professor Philip E. Tetlock. As value investors, we prefer investments that minimize the need to forecast outcomes — we always want situations of 'Heads, we win big, Tails we don't lose'. Still, every position in the fund implicitly involves some forecast about outcomes. To that end, Superforecasting raised several good points for us to reflect on.

Superforecasting recounts Prof. Tetlock's work on the multi-year Good Judgement Project, where the CIA and other US intelligence agencies funded a forecasting tournament to:

a) measure the forecasting abilities of hundreds of 'experts' as well as 'ordinary' (as selection was voluntary, the 'ordinary' people were already a self-selected group of thoughtful, numerate, well-read candidates); and
b) figure out ways to boost forecasting abilities.

Typical questions asked were qualitative topics that CIA and financial analysts would address e.g. What is the fate of Libya in x months or years? Where will oil prices be in 6 months?

Unsurprising to value investors, the initial insight was that Tetlock's 'ordinary' people, consuming publicly available news sources, had forecasts at least as good as paid TV experts or government intelligence analysts with access to pricey, confidential intelligence and data.

The more applicable insight to lay people like us was that Tetlock identified a superior group of 'ordinary' forecasters (known as "Superforecasters") who could consistently out forecast professionals. Superforecasting lays out the attributes and methods of these Superforecasters that helped to boost their performance, which include thinking probabilistically about qualitative events (rather than 'yes' and 'no', there should be many different 'maybe'), open-mindedness/intellectual curiosity, constantly believing one can improve and learn, incorporating new data points to enhance the old forecast, adopting many schools of thought, working in a good team, and learning from team members.

Some of these elements involve a lifetime of moulding and acceptance – how many of us think probabilistically or can incorporate multiple mental models in thoughtful contemplation ala Charlie Munger, other elements fall in the 'get it straight away' or 'reject it outright' bucket. For DCG investors who are short of time, Tren Griffin's blog (25iq.com) carries a good summary of how Munger's exhortations over the years have many parallels with Tetlock's 'new' insights.

Update

In accordance with industry best practices, we would like to inform you of Daniel's current personal involvement in the investment committees of a number of non-profit organisations:

Entity	**Role**	**Date commenced**
Saver Premium Board of Trustees, MINDEF	Member, Board of Trustees	16 Jul 2012
National Council of Churches in Singapore	Chairman, Investment Committee	01 Jan 2010
Singapore Bible College		01 Jan 2008

For the latest updates of such information, please visit our website at www.dcginvest.com

Daniel Chan

Melvin Tan

Alexis Tran

TJ Tan

David Teoh

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