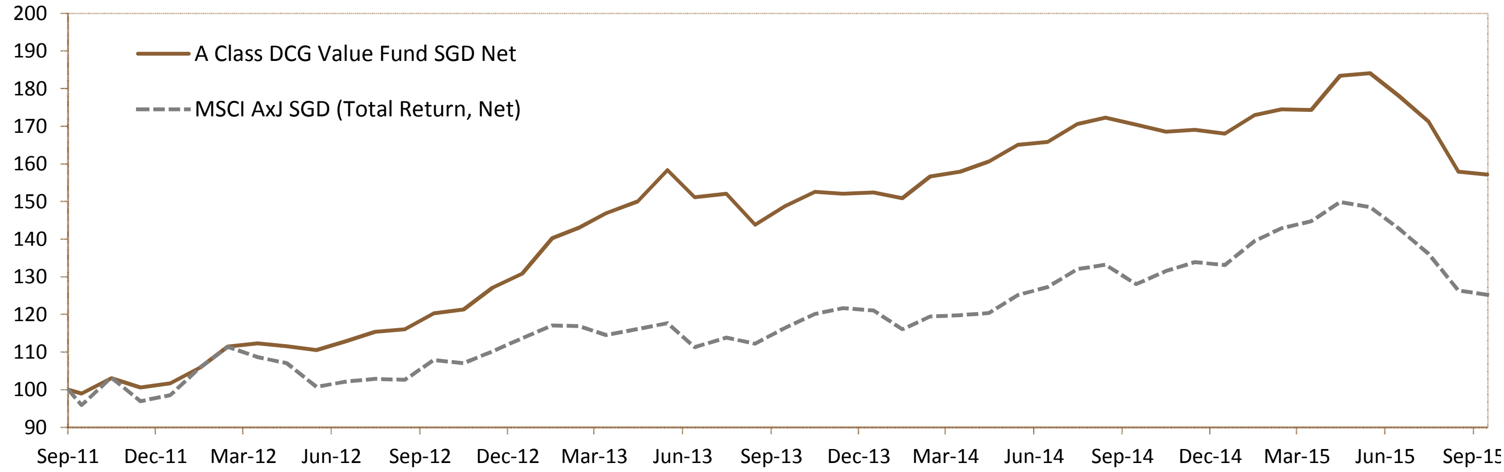
DCG Asia Value Fund

September 2015
NAV: SGD157.1 ('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	YTD	MSCI AxJ YTD
2015	2.9%	0.9%	-0.1%	5.2%	0.4%	-3.3%	-3.9%	-7.7%	-0.5%				-6.5%	
MSCI AxJ	4.8%	2.4%	1.3%	3.5%	-0.9%	-3.8%	-4.7%	-7.1%	-0.9%					-5.9%
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]													57.1%	25.2%

*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	11.8%	5.7%
Standard Deviation	10.0%	11.8%
Sharpe Ratio	0.98x	0.31x
Sortino Ratio	1.77x	0.49x
Information Ratio	0.83x	N/A
Peak to Trough	-14.7%	N/A

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

Portfolio Concentration

No. of holdings	55
Top 10 holdings	27.4%
Top 20 holdings	45.7%

Fund Exposure

Country Exposure	
HK/ China	41.3%
Singapore	14.7%
Indonesia	7.1%
Vietnam	3.4%
Philippines	3.3%
Thailand	3.1%
Korea	2.0%
Sri Lanka	1.5%
Malaysia	1.0%
Taiwan	0.6%
Cash	21.9%
Total	100.0%

Sector Exposure	
Financials	32.1%
Consumer Discretionary	19.4%
Industrials	8.9%
Information Technology	7.2%
Consumer Staples	6.6%
Energy	2.7%
Materials	1.4%
Cash	21.9%
Total	100.0%

Fund Details

Size (equities)[4]

Small Cap (<US$1b)	36
Mid Cap (US$1b-$5b)	8
Large Cap (>US$5b)	11
Total	55

(4) Median market capitalization US$527 mil

Top 5 Holdings

Hui Xian REIT
Luk Fook Holdings International
HKR International
Pacific Century Regional Developments
Dorsett Hospitality International

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

Monthly Net Returns*

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	MSCI AXJ YTD
2015			-0.8%	8.6%	-1.2%	-3.2%	-5.6%	-10.3%	-1.3%				-13.9%	
MSCI AxJ(1)			0.4%	7.2%	-2.6%	-3.7%	-6.3%	-9.8%	-1.8%					-16.2%
Inception to Date(2)													-13.9%	-16.2%

*Current year returns are unaudited. Past performance is not indicative of future results. References to the MSCI AxJ 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 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 had a poor third quarter, the worst in our four-year history, with the NAV down 11.8% against a 12.3% slip for the benchmark in S$ total return. However, since inception, the Fund has achieved a 57% return, outperforming the benchmark's 25%.

The July to September decline brought the year-to-date return into negative territory. For the first nine months, the NAV fell 6.5% versus the benchmark's 5.9% slide. A combination of interest rate worries, emerging market currency risks, and continued re-calibration of China and ASEAN's growth expectations weighed on our performance. We were hit, in particular, by our Hong Kong small and mid-cap holdings.

Portfolio Update

While maintaining a defensive posture, with relatively high cash reserves, we bought selectively on market weakness. In the quarter, we added eight positions and exited eight, keeping portfolio holdings to 55 names. Three of the additions are stocks previously owned that had fallen back to attractive levels.

These actions arose from a careful review of our portfolio where we identified 'bullet-proof' companies – those with robust balance sheets or business models that will survive in a hard landing and still generate cash in most states of the world. But, we also found firms with shakier balance sheets and business models. In particular, we pruned those reliant on huge working capital to generate sales growth – far better to switch to quality franchises now than stay in companies dependent on the goodwill of banks and other capital providers to survive.

2nd Annual Investors Meeting recap

We hosted our second annual meeting on 30 September amid hazy conditions with smoke penetrating the building. Despite this, the new presentation format, followed by Q&A, was well-received so we will likely stick with this format.

TJ covered Charlie Munger's (Berkshire Vice-Chairman, Lee Kuan Yew admirer, and human fount of wisdom) investment record and severe underperformance in the difficult 1970s. The records show him underperforming the Dow Jones badly in 1973-74.

Year	Munger Partnership	Dow Jones
1973	-31.9%	-13.1%
1974	-31.5%	-23.1%

Investors who stuck with Munger Partnership eventually end up with Berkshire Hathaway stock, which would have provided a comfortable 26% p.a. return over 1974-2000. Basically, a dollar invested in 1974 was worth $330 by 2000! Such is the power of compounding in the hands of trustworthy managers – at 26% growth p.a., you basically double your money every three years.

We also shared a 2008 RW Baird study on how top-performing fund managers underperform their peer group for extended periods of time. In fact, 66% of the top managers (defined as beating their benchmarks by an average of at least 1% p.a. over a 10-year period) spent a continuous three years in the bottom 25% of their peer rankings.

It is well-known that most investors underperform the funds they invest in. Munger Partnership investors would have been tempted to quit following his poor 1973-74 performance. Investors' tendency to chase recent performance and flee underperformance appears to be a major factor weighing down their returns vis-à-vis their funds' underlying performance. The key takeaway: avoid the mistake of trading in and out of funds. One is invariably better off standing pat after investing.

One of the most common mistakes is to sell out of a fund during a market panic. Especially when it comes to value investing, the important thing is to be patient, take a long-term view and accept that managers can, and do, underperform in some years. For our fund, we have been getting net inflows over the last quarter. Investors should choose managers who combine a robust investment process backed by solid fundamental research and sound investment philosophy. This philosophy must include a long-term horizon recognising that investing is a marathon, not a sprint.

On a more upbeat note, Melvin shared our study on the Price-to-Book ("PB") ratio of the Straits Times Index versus the forward price return over subsequent 10-year periods. The point of the next two slides is that the stock indices (using STI as an example but analysing Hang Seng works too) are not stretched, and certainly look conducive compared to the past 20 years. Expected returns are highly favourable assuming some semblance of mean reversion.

While the past is not indicative of the future, our study of the STI from 1995 to date indicates that an investment in the STI at its current PB range of 1.0-1.2x had in the past generated, over the following 10 years, a compounded 9.3% return p.a. before dividends.

Where are we now?

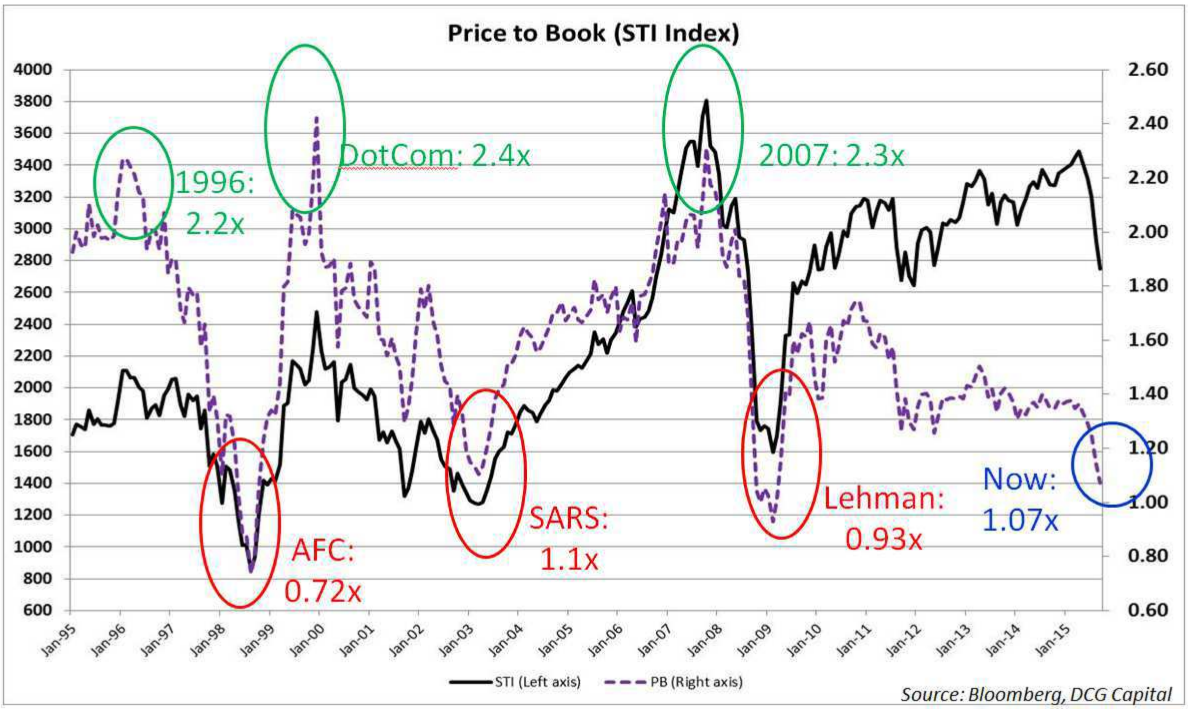

Figure 1: Current valuation is not high

Valuations Do Matter!

PB of STI Index	Av Price return over next 10 yr	CAGR per yr without divid
<1	187%	11.1%
1.0- 1.2	144%	9.3%
1.2- 1.4	95%	6.9%
1.4- 1.6	81%	6.1%
1.6- 1.8	65%	5.1%
1.8- 2	36%	3.1%
2.0- 2.2	19%	1.8%
>2.4	-0.90%	-0.1%

Figure 2: Expected returns at current valuations are favorable

Daniel took us through a quick review of the Chinese economy to try and answer the question “Should we still invest in China?” Based on Goldman’s Current Activity Indicator which looks at 15 indicators of economic activity, the current real growth rates should be about 6.5%. Given the ongoing rebalancing of the Chinese economy from export-led, manufacturing and fixed asset investment-driven model towards a more consumption and services-led one, a slowing is to be expected.

Despite recent setbacks, China’s long-term growth potential remains promising and fundamentals, strong. It has almost no foreign debt and sits on US$3.5 trillion of reserves. China remains the world’s highest saving economy with an expected 2015 trade surplus of US$600 billion or 6% of GDP. With a 2014 GDP per capita of about US$7,600, it remains a relatively poor country, ranking only number 87 in the world, which means plenty of upside. The anti-corruption campaign that dampened economic growth in the short term puts the nation on a more sustainable growth path. With initiatives like ‘One Belt One Road’ and the US$100 billion Asian Infrastructure Investment Bank, China will still play a key role galvanising regional economic development.

While China’s growth rate is likely to moderate further, a hard landing is unlikely in our view. The authorities still have policy options and levers to pull, such as further reducing the Reserve Requirement Ratio, policy rates, and removal of home purchase restrictions. State Owned Enterprise reform will also improve productivity and allocation to capital.

The Haze and Human Behavior

The Haze has been with Singapore for 40 plus years! (see http://www.straitstimes.com/singapore/environment/haze-in-singapore-a-problem-dating-back-40-years-ago.)

Skyline has changed but Singapore still suffers from same-old haze:

Singapore 13 October 1972

Singapore 5 October 2015

Source: The Straits Times

The air purifier market has blossomed in Singapore and our top pick this hazy quarter is the S$50 solution (see images below). 3M particle filters are unsurprisingly sold out in Singapore and we're grateful that Amazon ships globally. We welcome our readers to bring down a particulate meter to compare the performance of our solution versus the best-in-class S$2,000 BlueAir 600 series air purifier (its replacement filters retail at S$299!).

We have access to the 600 series aka 'Ferrari of air purifiers' because of the wonders of human misbehaviour. An analyst was sufficiently spooked by the Haze in 2013 (when the Pollutants Standard Index quadrupled from 80 to 320 in one day) to have followed his 'fast brain' and overpaid for a BlueAir.

We continue to collect life stories like this one as value investing is really about learning from mistakes, preferably other peoples', and avoiding them. A proper timeout for the 'slow brain' would present alternative solutions which, in our S$50 example, today works out to a 36x differential. Undoubtedly, our solution is ugly, disliked, and doesn't work as well as the 600 series but, would poor aesthetics and a couple of percentage points in poorer performance really be worth a 36x price difference?

$50 3M Filtrete air purifier (excluding fan), S$2 bright pink luggage strap:

Top down


Front

The same is true of the past few months of stock market panic: it's been a struggle to let the 'slow brain' take over when everyone's 'fast brain' is saying "sell or trade the rebound"! We've committed to the straight and narrow path of patient value investing and continue to hold each other to that standard. The struggle against the 'fast brain' never ends. Meanwhile, we're still on the hunt for the ugly, the cheap, and the out-of-favour ideas.

Outlook

While the economic outlook has clearly deteriorated as evidenced by sluggish macro-economic data, slumping commodity prices, and poor corporate results, stock prices across most Asian markets have fallen to attractive levels again. The Fund is 22% in cash. We have been nibbling on some stocks that were undervalued and have become even more so. We do not know when and where the bottom is but will still deploy cash steadily. We will also continue to actively screen the market for new and compelling ideas to invest in. Meanwhile, the portfolio continues to generate a steady dividend stream.

Daniel Chan

Melvin Tan

Alexis Tran

TJ Tan

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.