DCG capital

DCG Asia Value Fund

At 30/09/2012
Net NAV/Share
S$120.33 (SGD Class)
US$98.04 (USD Equivalent)

Fund Objective and Strategy

The investment objective of the Fund is to achieve long term capital growth through investments primarily in publicly listed and traded equities and equity-linked securities of companies from Asia ex-Japan countries. 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.

Fund NAV and Performance (net of all fees)

	Fund NAV SGD Class	SGD Class 1M Return	MSCI AxJ Net SGD 1M Return	Fund NAV USD Eq.	USD Eq. 1M Return (%)	MSCI AxJ Net USD 1M Return
Sep-11	S$98.95	-1.1%	-4.1%	US$75.68	-6.1%	-8.7%
Oct-11	S$103.09	4.2%	7.7%	US$83.01	9.7%	12.0%
Nov-11	S$100.58	-2.4%	-6.1%	US$78.45	-5.5%	-8.3%
Dec-11	S$101.68	1.1%	1.7%	US$78.39	-0.1%	0.6%
Jan-12	S$105.88	4.1%	7.4%	US$84.15	7.3%	10.8%
Feb-12	S$111.49	5.3%	5.2%	US$89.15	5.9%	6.0%
Mar-12	S$112.29	0.7%	-2.4%	US$89.28	0.1%	-3.1%
Apr-12	S$111.57	-0.6%	-1.5%	US$90.17	1.0%	0.0%
May-12	S$110.52	-0.9%	-5.9%	US$85.75	-4.9%	-9.6%
Jun-12	S$112.78	2.0%	1.4%	US$89.15	4.0%	3.0%
Jul-12	S$115.38	2.3%	0.7%	US$92.66	3.9%	2.6%
Aug-12	S$116.05	0.6%	-0.2%	US$93.03	0.4%	-0.5%
Sep-12	S$120.33	3.7%	5.1%	US$98.04	5.4%	7.0%
YTD		18.3%	9.5%		25.1%	15.8%
Since Inception		20.3%	7.9%		21.7%	9.1%

Country Exposure

HK/ China	29.5%
Singapore	30.4%
Indonesia	12.2%
Malaysia	6.1%
Philippines	4.2%
Sri Lanka	3.0%
Thailand	2.0%
Korea	1.0%
Cash	11.6%
	100.0%

Sector Exposure

Consumer Discretionary	17.0%
Consumer Staples	16.8%
Energy	6.7%
Financials	18.0%
Industrials	18.5%
IT	9.3%
Materials	0.9%
Telco	1.1%
Cash	11.6%
	100.0%

Top 5 Holdings

EZION HOLDINGS	MALINDO FEEDMILL
ARWANA CITRAMULIA	UNITED OVERSEAS BANK
GOLDLION HLDG	

Size distribution

	No. of Holdings	% of Holdings
Small Cap (<US$1b)	28	51.7%
Mid Cap (US$1b-$5b)	15	24.0%
Large Cap (>US$5b)	9	12.7%
Total	52	88.4%

Valuation

	Trailing P/E	Trailing P/B	Indicative Dvd Yld	Median Mkt Cap (US$ m)
DCG Asia Value Fund	9.8x	1.4x	2.6%	847
MSCI Asia ex Japan	13.1x	1.6x	2.6%	N/A

Fund Information

Domicile: Cayman Islands

Fund inception date: 16/09/2011

Fiscal Year End: 30 June

Subscription Frequency: Once a month at month end with 1 week notice

Redemption Frequency: Once a quarter at quarter end NAV with 1 month notice

Valuation Frequency: Once a month

Fund Manager: DCG Capital Pte Ltd

Fund Administrator: Portcullis Fund Administration (S) Pte Ltd

Minimum Initial Investment: S$250,000

Minimum Subsequent Investment: S$100,000

Management Fee: 1.25% p.a.

Performance Fee: 12.5% of appreciation in NAV subject to high water mark

Early Redemption Fee: (Retained in the Fund)

3% in 1st year; 2% in 2nd year; 1% in 3rd year

Custodian: Deustche Bank AG, Singapore Branch

Legal Counsel: Rajah & Tann LLP

Fund Auditor: Ernst & Young Solutions LLP

Tax Advisor: Ernst & Young Solutions LLP

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Important Notice

Dear Investor,

Asian stock markets enjoyed a good run in September, buoyed by further Central Bank actions after the Fed announced its US$40 billion a month program (which will run for at least two years) to purchase mortgage backed securities with the aim to bring down the unemployment rate in the US. This followed the earlier Outright Monetary Transaction (OMT) program announced by the ECB. North Asian markets rose strongly with HSI up 7.1% and KOSPI and TWSE registering over 4% gain.

ASEAN markets were mixed with Jakarta and Bangkok up a hefty 5.9% and 7.3% respectively but the rest of the ASEAN markets registered tepid gains.

Over the month, the Fund's net NAV gained 3.7% to $120.33 per share. Although this is below the benchmark's 5.1% rise, September's gain brought the Fund's year-to-date return to 18.3% and the return since inception to 20.3%. In comparison, the benchmark's year-to-date and since-inception returns are 9.5% and 7.9% respectively.

As the Fund's performance history is now just over a year we thought it would be timely to make a few observations here.

First, the volatility of the Fund's return in the last 12 months was 7.7% (measured in terms of standard deviation of monthly returns) which is lower than that of the benchmark's volatility of 14.4%. Using a risk-free rate of 2.0% (which is a bit higher than the SGD 10-year Government bond yield) the Fund's Sharpe ratio is 1.9x. (Sharpe ratio is a commonly used measure of risk adjusted returns).

Second, although the performance has exceeded our expectations it is but a very short track record and we do not need to be reminded that investing is a marathon, not a sprint. In spite of our best intentions there will be years when we will do quite well and times when we do less well. The important thing is to focus on the process rather than on the outcomes. By getting the process right we believe the results will take care of themselves. However it is entirely possible that even with a good process bad outcomes may occasionally happen. The following 2 by 2 matrix taken from James Montier's book on "Value Investing" illustrates this point:

	Good Outcome	**Bad Outcome**
Good process	Deserved success	Bad break
Bad process	Dumb luck	Poetic justice

Good outcomes can be due to "dumb luck" and not because the process was good. Although we will occasionally get the "bad breaks" our goal is to continually refine our process so that we can achieve "deserved success" most of the time.

Third, as we adopt an investment process that is benchmark agnostic, absolute return oriented and bottom-up driven, we are not surprised that the Fund's return and volatility numbers diverge significantly from those of the benchmark. Indeed our portfolio composition in terms of geography and sector bears little resemblance to the benchmark.

During the month, the team made a research trip to Manila and met a number of companies in the real estate, consumer and utilities sectors. We were impressed by the vibrancy of the place with many companies expressing optimism over their business prospects and experiencing strong current business trends. After the heady gains (the Philippine Stock Exchange Index has risen 94% since 2009) the PSE is now on 18x earnings – one of the most expensive markets in Asia. Clearly quite a bit of growth is already priced in. The same can be said for the Indonesian market, although the Philippine Peso has held up much better than the Indonesian Rupiah. Both are large domestic consumption stories with a combined population of about 350 million and a young demographic profile. The Philippines economy has been boosted by strong inward remittances from an estimated 10 million Filipinos working overseas as well as the Business Process Outsourcing industry which now employ an estimated 600,000 workers. As these countries gradually improve their infrastructure and tackle corruption more effectively, we believe there is still enormous growth that can be achieved.

We visited a few property companies including Ayala Land and Vista Land, which are still experiencing robust growth especially in the rural areas as home ownership in Philippines is still low and there is a need for improved living conditions. In the high end condominium market, there appears to be an oversupply situation which will take a while to clear. We also visited two shopping mall companies, SM Prime and Starmalls, which are also benefitting from strong consumer spending. Outside of Metro Manila, penetration of modern retail trade is still very low with one study showing that the traditional “mom & pop” (sari sari) stalls still make up more than 80% of consumption spending, providing ample room for the modern retail trade to grow.

The consumer companies we met including Alliance Global, Jollibee Foods, Pepsi and Seven (7-Eleven franchise) are all seeing strong growth in their top and bottom lines. Unfortunately most of these companies mentioned are already trading at high valuations.

Earlier in the month, we also visited Jakarta, Palembang and Bandung. The main purpose was to perform channel checks and to gain a better understanding of the food industry in Indonesia. In particular we wanted to learn more about **Tigar Pilar’s** operations, a company which we own. We followed the company’s sole distributor and visited a few of its key wholesalers in the wet markets. The fast turnover was impressive with fast selling products like dried bee hoon turning over within a day. **Tigar Pilar’s** dried noodle products were very visible in the wet markets and its rice packages were seen to be taking up more than half of the rice shelves in Giant hypermarkets.

The trip also included a visit to Alfamart, one of the two largest convenience store chains in Indonesia managing over 6,400 stores across the Archipelago. We visited one of Alfamart's six Distribution Centers (DC) in Jakarta, which supports approximately 500 stores located within a 160 km radius. The DC is located on a 4 ha plot with a built up area of 1 ha, comprising 42 rows of shelves stacked up to 9 levels with an inventory of close to 4,000 SKUs. Alfamart stores usually break even within 3 months of operation and the pay-back period is approximately 2.5 to 3 years. The company is running on negative working capital generating strong cash flows as its suppliers' credit term is usually 60 days. The company has tremendous growth potential with still low penetration of convenience stores in Indonesia.

We also visited Petra Food's distribution center in Jakarta, as well as their chocolate and cocoa ingredient factories and learned about their sales channels in hypermarkets and “mom & pop” shops in Bandung. We were impressed to see Petra Food's chocolate products occupying prime shelf space in Giant and other hypermart stores in Bandung. Together with its 3rd party brands' products, Petra Food's consumer products account for over 30% of confectionary and snack shelves in top modern trade stores in Bandung, Jakarta and Bali. The 3 hour tour to Petra Food Chocolate factory was equally impressive. The factory’s state-of-the-art chocolate confectionery production facilities produce about 40 thousand tons of chocolate products each year with a wide range of products including chocolate bars, dragees, chocolate wafers and chocolate rolls. With its strong product portfolio, efficient distribution channels and established brand name, Petra Food’s branded consumer division averaged 15% EBITDA growth over the last 5 years. Though no longer cheap, trading at 18x trailing PE, Petra’s business prospects in the coming years look promising being a major beneficiary of rising disposable incomes in Indonesia.

As we enter the final quarter of the year the Fund is 88% invested. We have added a few new names in Indonesia, Philippines and Thailand in the recent weeks and will gradually deploy the remaining cash as we find new and compelling ideas.