DCG Asia Value Fund

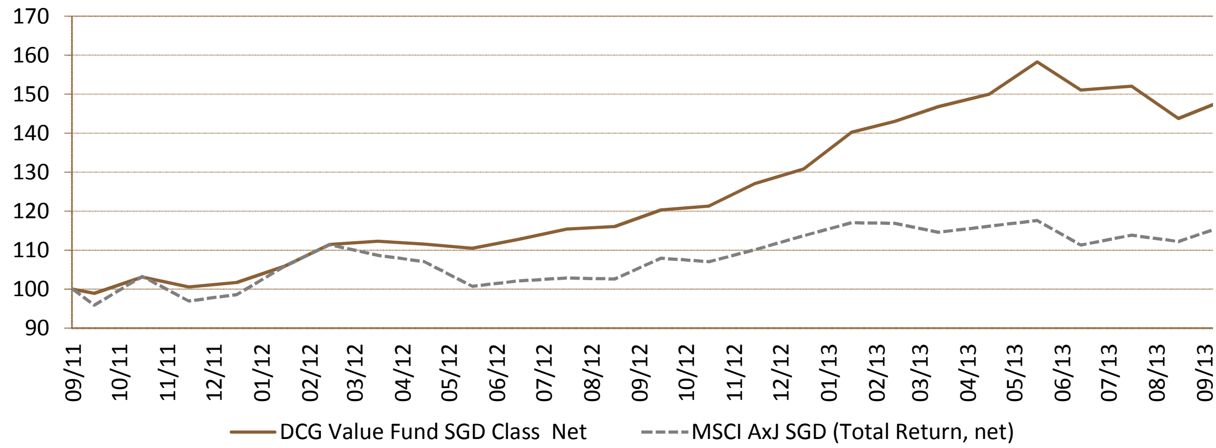
30/09/2013
Net NAV/Share
S$ 148.71 (SGD Class)
US$ 118.42 (USD Equivalent)

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 (measured in SGD, net of all fees)

Fund NAV SGD Class (since inception)



	2011			2012			2013		
	NAV	Fund Rtn	BM Rtn	NAV	Fund Rtn	BM Rtn	NAV	Fund Rtn	BM Rtn
Jan				S$105.88	4.1%	7.4%	S$140.26	7.2%	3.0%
Feb				S$111.49	5.3%	5.2%	S$143.02	2.0%	-0.1%
Mar				S$112.29	0.7%	-2.4%	S$146.85	2.7%	-2.0%
Apr				S$111.57	-0.6%	-1.5%	S$150.05	2.2%	1.4%
May				S$110.52	-0.9%	-5.9%	S$158.34	5.5%	1.3%
Jun				S$112.78	2.0%	1.4%	S$151.09	-4.6%	-5.4%
Jul				S$115.38	2.3%	0.7%	S$152.06	0.6%	2.3%
Aug				S$116.05	0.6%	-0.2%	S$143.81	-5.4%	-1.5%
Sep	S$98.95	-1.1%	-4.1%	S$120.33	3.7%	5.1%	S$148.71	3.4%	3.7%
Oct	S$103.09	4.2%	7.7%	S$121.31	0.8%	-0.8%			
Nov	S$100.58	-2.4%	-6.1%	S$127.10	4.8%	2.9%			
Dec	S$101.68	1.1%	1.7%	S$130.79	2.9%	3.1%			
YTD		1.7%	-1.4%		28.6%	15.3%		13.7%	2.4%

Fund Details

Portfolio Concentration

No. of holdings*	64
Top 10 holdings	25.0%
Top 20 holdings	42.6%

**Holdings include one short duration bond*

Size (equities)

Small Cap (<US$1b)	38
Mid Cap (US$1b-$5b)	18
Large Cap (>US$5b)	7
Total	63

Top 5 Holdings **(excl. near cash items)**

DKSH Holdings
First Pacific
Sarin Technologies
United Overseas Bank
SATS Ltd

Country Exposure

HK/ China	32.0%
Singapore	22.6%
Malaysia	7.9%
Indonesia	5.9%
Philippines	4.2%
Thailand	4.1%
Sri Lanka	2.5%
Vietnam	1.5%
Cash	19.2%
Total	100.0%

Sector Exposure

Financials	26.8%
Industrials	16.7%
Consumer Discretionary	15.3%
Consumer Staples	8.8%
Information Technology	7.5%
Energy	3.2%
Materials	2.1%
Telecommunication Services	0.5%
Cash	19.2%
Total	100.0%

Risk / Return (since inception, measured in SGD, net of all fees)

	Annualized Return	Annualized Std. Dev	Sharpe Ratio (RFR = 2%)	Sortino Ratio	Information Ratio	Peak to Trough
The Fund	21.5%	14.7%	1.32x	4.37x	1.13x	-9.2%
MSCI AxJ	7.7%	18.4%	0.31x	0.72x	N/A	N/A

Valuation

	Trailing P/E	Trailing P/B	Indicative Dividend Yld	Median Market Cap (US$ mil)
The Fund*	11.0x	1.3x	3.3%	546
MSCI AxJ	12.0x	1.5x	2.5%	N/A

**DCG Asia Value Fund: valuation is calculated for the invested portion only.*

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

Contact Information

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Important Notice

Dear Investor,

Asian Stock Markets rallied strongly after the Fed's surprise decision to delay "tapering" its QE programme with the benchmark MSCI Asia Ex Japan Index gaining 3.7% for the month. Our Fund gained a smaller 3.4% weighed down by uninvested cash which made up 27% of the portfolio. During the month, we deployed some of the cash into the markets and added eight new positions bringing the number of holdings to 63.

At $148.7, the Fund NAV at end September is 6% below Peak NAV of $158.3 reached at the end of May and down 1.6% for the quarter vs. the benchmark's total return of 4.6%. For the year-to-date the Funds' return is 13.7% compared to the benchmark's 2.4% gain. Over the past July – September quarter, the North Asian markets, where the Fund was under-weighted, have done much better with Hong Kong and Shanghai gaining about 10% and South Korea by 7.2%. In contrast, Indonesia, Philippines, and Thailand, where we were over-weighted, fell 10.4%, 4.2%, and 4.7% respectively.

The Fed's decision to defer tapering has brought some relief to the battered currencies and stock markets of emerging markets like Indonesia, Thailand and Philippines. The Indonesian Rupiah, which have fallen 19.5% since May 2013, looks to have stabilized at about the 11,400 level after Bank Indonesia raised benchmark policy interest rates twice to support the currency, and to counter inflation running at over 8%. The Southeast Asian markets which had been badly hit in June and August, recovered some grounds in September with Jakarta, Manila, Bangkok gaining 2.9%, 1.9%, and 6.9% respectively. All three indices are however still well below their recent highs.

As we have said in our last letter, we do not expect that even with tapering will we see a repeat of the 1997 Asian Financial Crisis for a number of reasons. Foreign reserves are much bigger now, exchange rates are more flexible and most countries enjoy healthy current account surpluses. Also there are various swap facilities in place to deal with any serious run on the currencies such as the US$240 billion Chiang Mai Initiative. Asian banks are in general, well capitalized and currency mismatches between the liabilities and assets are not as severe as they were during the 1997 crisis.

Attention has now shifted to the US debt ceiling with Oct 17th the deadline looming when the US government debt reaches the limit of US$16.7 trillion and a debt default looms if no increase is agreed - an unthinkable scenario.

Meanwhile, the outlook has improved in the Eurozone with economic output in the April to June quarter up by 0.3%, thus officially ending 18 months of recession. Although the recovery is likely to remain tepid and fragile, the fact that a major part of the global economy has stopped shrinking is itself an encouraging development.

In China, the economic figures for August were encouraging with industrial output growing at the fastest pace in 17 months. What was disappointing, however, was that growth was still largely driven by fixed assets investment (up 21%) and infrastructure fixed assets (up 32%), so the rebalancing of the economies towards more consumption and less investment is still a long way away.

We would now like to highlight a few investment ideas that we have added recently into our portfolio.

Far East Consortium International Ltd is primarily engaged in property development and hotel operations in Hong Kong, China, Singapore, Malaysia and Australia and car park operations in Malaysia, Australia and New Zealand. It was listed on the HK Exchange in 1972. The Far East holding group of companies (no relation to Singapore's Far East Organization) was founded by Deacon Chiu who had since handed over the reins to his son, Tan Sri Dato David Chiu.

In 2010, the company spun off its hotels assets into another listed company, Dorsett Hospitality International Ltd, managed by Winne Chiu, the daughter of David Chiu. 73.5% owned Dorsett operates 17 hotels in four countries with 4,800 rooms and plans to grow to 7,000 rooms in three years' time, including two hotels in the UK.

We like the stock not only for its large discount to net asset value (estimated at 65% - 70%) but also for the steady cash flows generated by its portfolio of businesses. In the meantime, shareholders are paid a well-covered dividend yield of over 5%.

Future Bright Holdings is an F&B company based in Macau. Its Managing Director Mr. Chan Chak Mo, who is also the company's largest shareholder with a 45% equity interest, has over 26 years of experience in the entertainment and hotel management sector in Macau. Founded in 1984, Future Bright was initially a theme park operator in Panyu. Having undergone extensive restructuring by 2007, it had disposed of its theme park assets and is now focused mainly on its F&B businesses comprising restaurants, food courts and cafes (Pacific Coffee), offering Chinese, Japanese and Western cuisines. Its restaurants include a number of well-known mid-range restaurant chains situated in several of Macau's high-tourist traffic properties including Sand's The Venetian, Sands Cotai Central, Galaxy Macau and Melco Crown's City of Dreams.

The majority of Future Bright's customers are mainland Chinese tourists that have been coming in increasing numbers over the recent years. Transport infrastructure linking Macau and mainland China has improved with the commencement of operations of the

Guangzhou-Zhuhai Intercity Railway and the increase in capacity of the Gongbei Immigration Checkpoint. A number of on-going projects, such as the Hong Kong – Zhuhai – Macau Bridge and the permanent Taipa Ferry Terminal are expected to come on-line over the next three years. Several new integrated resort and casino developments are underway in the Cotai area, including the expansion of Galaxy Macau and Sands, which will add a significant number of new tourist attractions and lead to increased demand for more F&B outlets to cater to the growing number of visitors. With these developments, we expect Future Bright to benefit from the growth in tourist spend, capitalizing on its established supply chains and strong reputation among the integrated resort and casino operators in Macau.

Besides tourists, the Company plans to expand its sources of revenue by providing contract food catering to the thousands of hotel staff, and from the sale of food souvenirs such as almond cakes, egg rolls and moon cakes at its restaurants and flagship store.

Despite the favourable growth outlook, Future Bright's stock is trading at a modest PE ratio of 11x.

Pruksa Real Estate Plc, a Thai real estate developer founded in 1993 develops mass-market town houses and single detached houses mainly in the Bangkok area for low to middle income families. It also develops condominium projects at good locations in Bangkok to cater to mid-to-high income buyers. To address the low-middle income segment, Pruksa's townhouse projects are usually located at suburban residential areas just over an hour's drive from the city centre. A typical town house provides 80 - 160 sqm of dwelling space and sells for THB 1 million to 3.5 million, equivalent to S$40,000 to S$140,000. The company employs pre-fabricated construction technology to standardize and shorten its construction process for town houses and single detached houses, resulting in quicker delivery times and shorter collection cycles. Its condominium projects are usually located near existing or potential train stations or with direct access to toll roads to target working individuals and small families. Flat sizes in these condominium projects are usually small, typically from 400 sqft (1 bed room) to 900 sqft (3 bed room) pricing from Baht 2 million (~S$80,000) to Baht 8 million (~S$250,000) per flat. For FY13, Pruksa's pre-sales for the first 9 month is close to its full year target driven by strong sales of its condominium projects. Profit margin for Pruksa's housing units on average are about 14.5%.

We first looked at Pruksa more than a year ago when it was then trading at THB18/share but missed the opportunity to buy as the stock ran up quickly and doubled to THB35/share within 4 months leading to February 2013. With the recent sharp pull back we took the opportunity to buy in at about THB17- 18/share.

We like the company for its strong brand, clear vision and large addressable markets, focusing on real housing demand in the Bangkok vicinities. With a population of over 9 million and rising wages, we believe housing demand will remain strong on the back of Bangkok's on-going urbanization and extension of the city's mass-transit system.

Digital China was spun off from the Legend Holdings in 2001 and listed on the HK Stock Exchange. Legend Holdings was started by the Institute of Computing Technology, Chinese Academy of Sciences in China. Two of its most famous subsidiaries are Digital China and Lenovo, now the second largest PC maker in the world.

Digital is one of the largest IT service providers and distributors of PCs and notebooks in China. In July, Premier Li Keqiang announced in a State Council executive meeting the establishment of "Sm@rt City", an electronic government online public information service platform. This initiative, designed to improve service capabilities and enhance productivity, should benefit Digital China. The company has already signed agreements with the Chongqing and Huizhou governments to build such platforms and is confident that it can realize RMB 5 - 10 billion in recurring revenue from the rollout of Sm@rt Citys in 50 cities over the next three to five years.

In recent months, with the economic slowdown in China, Digital China has had to contend with weak IT spending and poorer margins. With such low expectations, we started buying the stock when it was trading at a PE ratio of 6.5x - 7x taking a more positive view on the longer-term growth potential of the company. Moreover, we see Digital China's revenue mix changing towards more recurring income with the rollout of more Sm@rt City platforms. The stock recently moved up significantly after the Chinese government approved the spinoff of its Digital China Information Service in the A share market, thus unlocking some of the hidden value.

Mapletree Greater China Commercial Trust is part of Temasek's stable of companies. It currently owns two properties; Festival Walk in HK and Gateway Plaza in Beijing with occupancy rates of about 98%. Current passing rents are lower than the signing rents in the market which will result in positive rental revisions over the next two to three years. For Beijing Gateway we expect 8% - 10% rental revisions for the next two years as there is limited Grade A office supply in that area. There is also asset enhancement potential for Festival Walk which will increase the net leasable area in the next few years. Having a strong sponsor like Mapletree also helps the REIT to obtain low cost of funding. Listed in March 2013 at IPO price of S$0.93/share the REIT traded to a high of S$1.15/share but pulled back sharply after the general rise in interest rates sparked by the Fed's May 22nd statement about unwinding QE stimulus. The stock is currently trading at S$0.88/share at a PB ratio 0.93x and offers an attractive dividend yield of 6.5%.

Greatview Aseptic Packaging ("GaPack") is a China-based manufacturer of aseptic packages branded under "GA Brick Aseptic". It is the second largest supplier of roll-fed aseptic packaging materials in China and globally after Tetra Pak. Aseptic filling and packaging is used widely in dairy and food packaging to preserve the quality of the products and to prolong lives. In 2012, GaPack sold over 8.5 billion aseptic packages mostly in China, and accounted for approximately 12% of the China market. In comparison, Tetra Pak's 2012 China and global sales volumes were 60 billion and 173.2 billion packages respectively.

Being the inventor and owner of many patents of aseptic packaging methodology since 1946, Swiss-based Tetra Pak has been the dominant player in roll fed aseptic packaging solution globally with over 70% market share worldwide. GaPack only started aseptic packaging for standard roll-fed filling machines in 2003 when the current Chairman, Mr. Hong, and CEO, Jeff Bi, joined the company after working for many years in Tetra Pak. Starting production in 2004 with only 330 million packages per year, GaPack was able to break into China's dairy market in 2006 with over 2 billion packs produced in that year for the top three domestic dairy producers, namely Huierkang, Yili and Mengniu. Since then, GaPack's annual production has grown over four-fold.

Today, GaPack offers an alternative reliable and high quality aseptic packaging solution to dairy and non-carbonated soft drink producers at a slight discount to Tetra Pak. GaPack is able to provide the full range of services from machines supply and installation to technical support and maintenance, spare parts supply and packaging materials. The company is building up its capacity in both China and Europe, reaching an annual capacity of 21.4 billion packs by end 2013. GaPack's strength is seen in its better profitability compared to other flexible packaging conversion plants, and stickiness of its client base. It, however, faces strong competition from Tetra Pak which has sued GaPack for one patent infringement in a German court in November 2010. According to GaPack's legal advisers, the maximum damage claim would be about HK$1.45 million if Tetra Pak wins the case. However the German court denied Tetra Pak's claim in January 2012 and Tetra Pak is liable for proceedings cost. In July 2013, China's State Administration for Industry and Commerce announced that it has launched an anti-monopoly investigation against Tetra Pak. This development could be beneficial to GaPack enabling it to expand market share as well as lowering its production costs as Tetra Pak may have to open up some of its technology to allow third party aseptic materials to be used in Tetra Pak-made filling machines.

Trading at PE ratios of 15x FY13 earnings and 12x FY14 earnings, we like the stock for its growth potential in both China and overseas markets. We believe that GaPack's track record and its ability to scale up production will attract more food producers to consider it as a cheaper substitute aseptic packaging solution provider to Tetra Pak.

Nok Air is a low cost airline based in Bangkok, Thailand. It was established in 2004 as the low cost airline for the national carrier Thai Airways. After its listing on the Thailand Stock Exchange in June this year, Thai Airway's stake has been reduced to 33%. Its main hub is the Bangkok Don Muang Airport, from which it services over twenty domestic destinations including popular stops such as Chiang Mai, Phuket and Hat Yai.

In spite of intense competition in the industry, Nok Air has grown its market share significantly over the last three years, increasing from under 16% in 2010 to about 27% by the third quarter of 2013. Within the domestic low cost sector, the Company's market share is nearly equal to its closest competitor, Thai AirAsia, each with about 48%. Nok Air is dominant in servicing lower tiered provinces that are very popular with domestic travelers who shuttle to such places for work or for recreation. The Company's operational capabilities are evident from its ability to generate some of the highest passenger yields among regional low cost carriers, even taking over several routes that rivals had previously made losses in. Compared against its peers that ply the domestic routes, Nok Air's price points are significantly cheaper than Thai Airways, and close to that of Thai AirAsia. We expect Nok Air to benefit from the booming tourism industry in Thailand, especially with increasing domestic wages and the growing interest from regional and Chinese tourists in Thailand as a holiday destination.

Nok Air pursues an asset light business model, preferring to lease rather than own its aircrafts and operates a fleet of about 20 leased planes comprising Boeing 737s and other smaller planes. The Company uses smaller planes in new routes to keep passenger yields high while building demand, phasing in larger planes only when demand has risen sufficiently. With the strong growth experienced to date and high utilization of its fleet, Nok Air plans to gradually expand capacity and replace several of its ageing planes with new and more fuel-efficient aircrafts which will lower its cost per ASK (available seat kilometre) further.

The Company distinguishes itself from other regional low cost carriers in a number of areas. These include the Company's extensive booking, payment and distribution channels that facilitate customers' payment and ticket collection at 7-Eleven stores in Thailand, innovative ferry services (included in the price of the flight) that link travellers from out-of-town airports to their destination, and the provision of a free snack to all passengers.

The Company's shares are trading at a PE ratio of 11x. While the Company's dividend policy is for a payout ratio of at least 25%, it has paid out over 50% of its earnings in each of the past two years supported by a strong balance sheet (debt free) and operating cashflows.

Although we usually avoid investing in airlines due to low ROIC (return on invested capital) characteristics and highly competitive nature of the industry, we make an exception here as we are convinced of Nok Air's growth potential and strong execution.

Daniel Chan
Melvin Tan
Alexis Tran