DCG capital

DCG Asia Value Fund

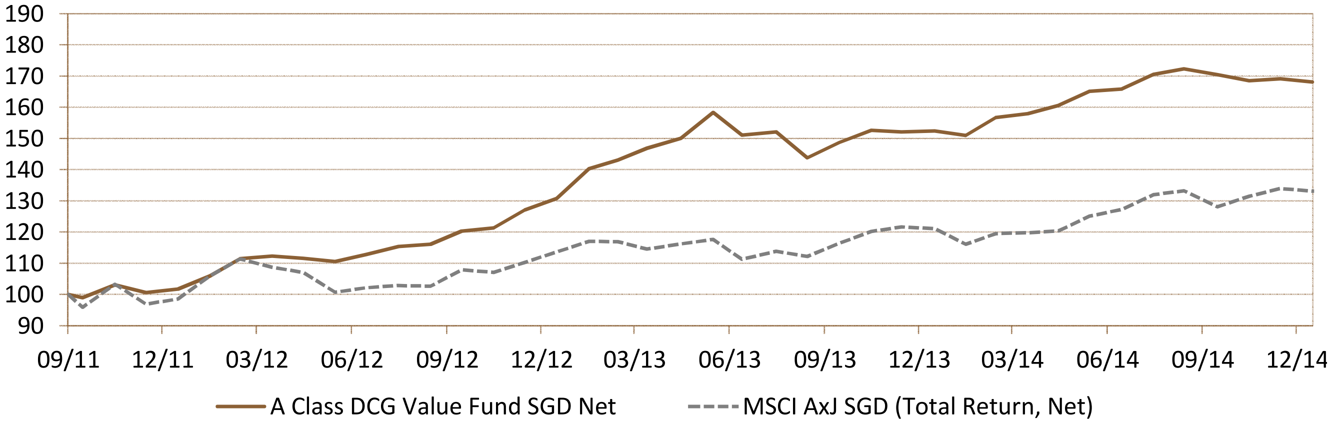
31 Dec 2014
Net NAV per share
A Class: S$ 168.05
M Class: S$ 116.38

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 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.

Fund NAV and Performance (measured in SGD, net of all fees)

Fund NAV SGD Class (since inception, 16 Sep 2011)



2014	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
A Class	-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%
A-NAV S$	150.9	156.7	157.9	160.6	165.1	165.9	170.6	172.2	170.4	168.5	169.1	168.1	168.1
M Class	-1.0%	4.4%	1.0%	2.0%	3.3%	0.6%	3.3%	1.2%	-1.1%	-1.2%	0.5%	-0.6%	13.1%
MSCI AxJ	-4.1%	2.9%	0.3%	0.5%	4.0%	1.7%	3.7%	0.9%	-3.9%	2.7%	1.8%	-0.6%	10.0%

2013	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
A Class	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%
A-NAV S$	140.3	143.0	146.8	150.0	158.3	151.1	152.1	143.8	148.7	152.5	152.1	152.4	152.4
M Class										2.8%	-0.3%	0.3%	2.9%
MSCI AxJ	3.0%	-0.1%	-2.0%	1.4%	1.3%	-5.4%	2.3%	-1.5%	3.7%	3.2%	1.3%	-0.5%	6.5%

2012	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
A Class	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%
A-NAV S$	105.9	111.5	112.3	111.6	110.5	112.8	115.4	116.1	120.3	121.3	127.1	130.8	130.8
MSCI AxJ	7.4%	5.2%	-2.4%	-1.5%	-5.9%	1.4%	0.7%	-0.2%	5.1%	-0.8%	2.9%	3.1%	15.3%

2011	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
A Class									-1.1%	4.2%	-2.4%	1.1%	1.7%
A-NAV S$									98.9	103.1	100.6	101.7	101.7
MSCI AxJ									-4.1%	7.7%	-6.1%	1.7%	-1.4%

Fund Details

Portfolio Concentration	
No. of holdings	69
Top 10 holdings	23.7%
Top 20 holdings	40.4%

Size (equities)	
Small Cap (<US$1b)	38
Mid Cap (US$1b-$5b)	16
Large Cap (>US$5b)	15
Total	69

Top 5 Holdings

Concepcion Industrial Corp
Hui Xian REIT
Tiga Pilar Sejahtera Food
Luk Fook Holdings International
SmarTone Telecommunications

Fund Exposure

Country Exposure	
HK/ China	46.1%
Singapore	9.2%
Indonesia	8.3%
Philippines	7.9%
Taiwan	3.1%
Malaysia	3.5%
Thailand	2.3%
Korea	2.9%
Vietnam	2.1%
Sri Lanka	1.5%
Cash	13.1%
Total	100.0%

Sector Exposure	
Financials	29.2%
Consumer Discretionary	20.6%
Industrials	12.1%
Consumer Staples	10.3%
Energy	4.9%
Materials	2.5%
Information Technology	3.2%
Telecommunication Services	2.4%
Utilities	1.1%
Health Care	0.6%
Cash	13.1%
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*	17.1%	8.9%	1.70x	3.67x	1.01x	-9.2%
MSCI AxJ	9.1%	11.4%	0.62x	0.97x	N/A	N/A

**Risk / Return figures above are applicable to A Class shares*

Valuation

	Trailing P/E	**Trailing P/B**	**Indicative Dividend Yld**	**Median Market Cap (US$ mil)**
The Fund*	10.6x	1.1x	3.1%	878
MSCI AxJ	12.0x	1.5x	2.6%	N/A

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

Fund Information

Domicile: Cayman Islands

Fund inception date: 16 Sep 2011

Fiscal Year End: 30 June

Fund Manager: DCG Capital Pte Ltd

Fund Administrator: Portcullis Fund Administration (S) Pte Ltd

Custodian: Deustche Bank AG, Singapore Branch

Fund Auditor: Ernst & Young Solutions LLP

Tax Advisor: Ernst & Young Solutions LLP

Legal Counsel: Rajah & Tann LLP

Minimum Initial Investment: S$250,000

Minimum Subsequent Investment: S$100,000

Valuation Frequency: Once a month

Management Fee:

A Class Shares: 1.25% p.a.

M Class Shares*: Not applicable

Performance Fee:

A Class Shares: 12.5% of appreciation in NAV, subject to high water mark

M Class Shares*: Not applicable

**M Class Shares are only applicable to seggregated accounts managed by DCG Capital. Management and performance fees for M Class Shares are charged separately to avoid double-charging.*

Early Redemption Fee: (retained in the Fund)
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

Contact Information

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Important Notice

Dear Investor,

Fund Performance

The Fund NAV ended 2014 at $168.05 with an annual return of 10.3% for the year, marginally ahead of the benchmark's (MSCI Asia ex-Japan Index, total return, S$ basis) 10.0% gain.

We had a good first half, achieving 8.8% return, comfortably beating the benchmark's 5.1% gain but a poor second, with only 1.4% return compared to the benchmark's 4.6% gain.

Within the second half period, we had a good third quarter result with 2.7% return compared to the benchmark's 0.6% return. However in the fourth quarter, the Fund registered a 1.4% loss while the benchmark gained 4.0%.

During the fourth quarter, Asian markets were especially volatile following Wall Street's roller-coaster ride. The oil and gas sector, in particular, was pummelled by collapsing crude oil prices. The Fund had a small but not insignificant exposure here and some of our stocks fell as much as 43% from end-September levels. Our fourth quarter performance was also dragged down by a few other names in our portfolio. These include **Future Bright, Greatview Aseptic, Luen Thai, DKSH, Tiga Pilar, Vietnam Dairy, Sarine Technologies, Arwana Citramulia** and **Malindo Feedmill**.

Some of our new investments made in the fourth quarter also did not perform well. Few of these are what we would consider to be permanently impaired capital and in value investing, it is always possible for purchases to be made too early as it may take a longer time for stock prices to reflect fundamentals.

Also contributing to the relative underperformance in the fourth quarter is the lack of exposure to index heavyweight, India, which did well for the quarter with the Sensex Index rising 5.8%.

Company and Portfolio Updates

During the fourth quarter, we added 14 new positions to the portfolio: 10 China/Hong Kong names, one Indonesia, one Korea, one Malaysia and one Vietnam, and got rid of eight names.

We took advantage of the Shanghai-Hong Kong Stock Connect, which opened in mid-November, and bought two Chinese stocks listed on the Shanghai Stock Exchange. One of these is **SAIC Motor Corporation** ("**SAIC**"), the largest auto-manufacturing group in China with a 24% national market share. If you have been in the back seat of a cramped Shanghai taxi sometime in the past 30 years, it would very likely have been one of SAIC Motor's ubiquitous Volkswagen ("VW") Santana taxis. SAIC is 77% Shanghai government owned-controlled and its primary products are cars, minibuses and light trucks. The bulk of SAIC's value lies in its 50/50 joint ventures with VW and General Motors ("GM"). Shanghai VW and Shanghai GM each sell about 1.7 to 1.8 million vehicles annually, accounting for roughly 60% of total SAIC vehicle production and 90% of SAIC's net income.

With increasing focus on pollution control, intractable traffic jams and government restriction on car ownership, we don't expect any Chinese automaker to return to the 20% to 50% kind of annual growth rates seen in the past decade. Nonetheless a mid to high single-digit percentage volume growth over the next five years appears comfortably within reach as existing car owners look to upgrade to SUVs (Sports Utility Vehicles) or MPVs (Multi-purpose vehicles) while Chinese economic growth inland spreads the joy of new car ownership from the coastal cities. We think SAIC can do better than this. Strong contribution from the joint venture with GM (Chevy, Buick and Cadillac) and a new slate of 2015 VW models suggests SAIC will continue to beat market growth and extend its leading market share in the foreseeable future.

We also expect SAIC to benefit from the long running competition between VW and GM in the China market. In 2013, VW retook its spot as China's top selling foreign brand after GM's long nine year reign at the top. VW's newly announced EUR22 billion investment in its two Chinese joint ventures over the next five years will help expand SAIC's exposure inland. GM, on its part, is already a third of a way into its USD12 billion 2014 to 2017 expansion plan to China's West.

Based on surveys we have seen, foreign JV brands, and in particular, VW, continues to be aspirational for Chinese consumers and tends to invoke the highest brand loyalty. SAIC's current valuation is attractive, with a third of its RMB220 billion market cap in cash, price-to-book ("PB") ratio of 1.4x, PE ratio of 7.7x , and a dividend yield 6.5%.

We initiated a position in **China Modern Dairy** ("**CMD**") after the stock had fallen 50% from its peak in mid-September. CMD operates dairy farms with 190,000 cows of which 107,000 are producing milk, the rest being heifers and calves. Around 70% of the milk volume is sold to MengNiu which owns 28% of CMD. Despite the 10% run up in the past month, CMD's share price is trading at a PE ratio of less than 10x, PB ratio of 1.5 times.

We built our position towards the end of 2014 after CMD was hit by a series of bad news flow, including inventory issues at its downstream customer, pollution challenges at its farms, and weak Chinese raw milk prices.

CMD is the most advanced dairy farming operation in China in terms of herd count and volume produced. Ordinarily, it is hard for value investors to justify an investment in an upstream business with a commodity product and no pricing power. However, the dairy business in China is not operating under normal circumstances.

In the past seven years, Chinese domestic milk demand has almost doubled from 18kg of dairy products per person in 2007 to an estimated 33kg per person in 2014. This number seems low compared to Korean levels (70kg per person) though it approximates Japanese levels of 35kg per person.

Despite continued demand from consumers, domestic supply is unable to keep pace with almost 27% of 2014 demand met by imported milk. There are good economic reasons for China to rely on imported milk as the New Zealanders, Irish and others can produce milk more cheaply compared to the Chinese. However, as is in the US and the EU, Chinese policy makers view dairy production as strategic in nature and intend to support a strong domestic industry and to reduce reliance on imports. After the melamine scandal of 2008, the government is also intent on cleaning up the upstream supply chain. This would mean reducing reliance on small-scale farmers and supporting larger ones, like CMD, to regain consumer trust. Accordingly, aside from government grants and subsidies provided to CMD and its major customer MengNiu, CMD would also enjoy income tax exemption on earnings derived from raw milk production. In the longer run, the Chinese government may also relax some of the agricultural distortions which resulted in higher corn and other cereal prices. If that were to occur, reduced feed costs will help bring down Chinese milk production costs closer to international levels. In the meantime, shareholders in a Chinese national champion are compensated with mid-teen ROE (which is 50% higher than MengNiu's 10%), and 50% lower PB ratio (1.5x) compared to MengNiu (2.6x).

We bought back into **Bonia** after its share price had fallen to MYR0.83. We had earlier sold all our positions in August at about MYR1.30 and thought the stock was attractive again at this price, trading at a PE ratio of only 10x and 1.8x book.

Bonia, which sells mainly ladies handbags and owns the Braun Büffel trademark for Asia Pacific has been seeing softness in its sales in Malaysia and Singapore, its key markets. Moves to expand into Vietnam and Indonesia have also increased expenses resulting in net margin squeeze. With the implementation of 6% Goods and Service Tax in Malaysia coupled with other macro-economic headwinds caused by the oil price collapse we can expect Bonia to face soft business conditions in the coming months. Nevertheless, we are comfortable reinvesting in the company at this price. We were also encouraged by the fact that management and insiders have been buying after the sharp price fall.

During the quarter, **Hui Xian REIT** announced its acquisition of Metropolitan Plaza, a prime commercial property in Chongqing, China. Located in the prime Jiefangbei central business district ("CBD"), the plaza consists of a shopping mall with a gross floor area of 1.17 million square feet and 543,000 square feet of office space. The seller, Hutchison Whampoa, has guaranteed Hui Xian REIT a minimum rental income of RMB299 million for five years. Based on RMB3.9 billion acquisition price, this works out to about RMB29,000 per square meter for retail and about RMB16,800 per square meter for office. This compares favourably with Capitaland's replacement cost (development cost and land cost) for the new site nearby which works out to about RMB25,800 per square meter. Metropolitan Plaza is however more centrally located in the center of the CBD and even adjusting for a shorter lease and older building, the purchase looks attractive. The acquisition which is 80% funded by debt and 20% cash, will be accretive, adding about 4.2% to the current dividend per unit (DPU) and will bring Hui Xian's gearing to only 15.4%.

Chongqing has a population of about 29 million people of whom six to seven million live in the urban areas. The office building is 97.3% occupied and major tenants include KPMG, PricewaterhouseCoopers, the offices of the Consulate Generals for UK and Canada, Deutsche Bank, HSBC, Dragonair, 3M and Johnson & Johnson Medical. The shopping mall, which is 92.5% occupied, boasts of tenants like Far Eastern Department Store, Food Republic, Calvin Klein, Hugo Boss, Paul Frank, Watsons, Adidas, Levis and Nike.

D&L Industries ("**DNL**") is one of the leading business-to-business manufacturers and suppliers of customized food ingredients, specialty plastics and aerosols to various consumer businesses in the Philippines. The company announced a good set of results for the nine months ended September with revenues and net profits growing 38% and 24% y-o-y to PHP10,485 million and PHP1,293 million respectively. The main contributors were in the refined edible oils business segment and the customized edible oils business segment which increased 36% and 10% respectively.

In the fourth quarter, DNL completed the privatization of Chemrez Technologies, which was an associated company listed on the Philippines Stock Exchange. Chemrez manufactures a range of vegetable oil-related products, biodiesel from coconuts, resins, and various powder coatings for use in protective and decorative finishing. On a consolidated basis for January to September 2014, the acquisition increased DNL's net assets and net profits by 29% and 19% respectively.

Since our initial purchase in January at about PHP6.10, DNL's stock price had appreciated significantly rising to an intra-day high of PHP17.20 in early December. With the rapid run-up in stock price, we had significantly reduced our holdings in DNL as it had reached our estimate of its intrinsic value.

Luen Thai, the Hong Kong listed apparel and leather goods manufacturer, saw its stock price dropping 50% from a high of HK$2.60 in January 2014 to HK$1.35 at end of December 2014. The massive derating followed a string of poor operating results from key clients like Coach, Esprit and low order visibility from large clients like Uniqlo, Polo and Adidas. Luen Thai had reported a 9% decrease in net profit despite a 4% increase in revenue for the first half of 2014. The casual and fashion apparels segment suffered a 17% fall in profit due to a lower utilization rate following cautious orders from key clients and disruption in production and logistics caused by the labor strike in Cambodia in early 2014. Going into the second half, management was cautious on client orders as the global retail environment remained very competitive with muted growth. Retailers like Uniqlo, Adidas and Michael Kors are also facing inventory issues and continue their cautious tone on placing orders.

At the current price of HK$1.40, the stock looks undervalued trading at less than half book value. We are comfortable maintaining our holding as Luen Thai is an established player in the apparel manufacturing industry with a strong balance sheet.

Greatview Aseptic's ("**GaPack**") share price fell from HK$5.20 per share to HK$3.80 per share in early November after the company reported a 16% decline in profit for the first nine months of the year. While sales volume increased significantly, the average selling price to key clients were lower by about 3% to 5%. GaPack's key clients, Yili and MengNiu, two of the largest producers and brand owners of dairy products in China, have seen slower growth in liquid milk sales in 2014 and more intense competition from other domestic brands and imported UHT (ultra-high temperature processed) milk. Despite lower raw material cost, operating cost from new production lines in

Gaotang and Germany weighed on the company's profitability. While the short term environment is challenging, we still believe in the long term prospects for GaPack, as milk consumption should continue growing in China and demand for UHT milk packaging in Europe may increase after the elimination of the milk quota system for European farmers in 2015.

We have exited all our positions in **Malindo Feedmill** in the fourth quarter. The poultry industry in Indonesia in FY14 was impacted negatively by significantly higher raw material costs resulting from the Indonesian Rupiah's 30% decline against the US Dollar 2013. Malindo's day-old-chicks ("DOC") business incurred losses after the surprise decision by the Indonesian government to impose a cap on DOC selling price which, at IDR3,200 per bird, is below production cost. To worsen the situation, Charoen Pokphand Indonesia ("CP Indonesia"), the largest poultry feed and DOC producer in the country, initiated a very aggressive campaign to gain poultry feed market share by giving free DOC to farmers who buy feed from CP Indonesia. Due to the aggressive capacity expansion by major players in 2013 we expect market conditions to remain challenging for the near term.

Sarine Technologies' share price suffered a 20% sell-down late in the fourth quarter over concerns that some of its customers in India may have delayed orders for new equipment due to a liquidity squeeze caused by reduced bank credit. There was also a compression in the spread between rough and polished diamond prices, as well as an unusual year end rise in polished diamond inventories after the Gemological Institute of America released its large backlog of graded diamonds in the fourth quarter.

We had sold down a significant proportion of our holdings in Sarine earlier over the third and fourth quarter when the share price was around S$3.20, close to our estimate of the company's intrinsic value and have since disposed of all our remaining positions in view of the current uncertainty hanging over the industry.

Outlook

The new year has started on a rather cautionary note with Wall Street falling for eight out of 10 trading days. Markets appear to be beset by growth deficit worries. The World Bank and the International Monetary Fund have both just revised their respective growth forecasts for the global economy to 3.0% (from 3.4%) and 3.5% (from 3.8%). Crude oil's spectacular collapse to below US$50 per barrel was interpreted by some to point to demand weakness although we think the host of supply issues is the main reason causing the collapse. Eurozone worries have resurfaced with Greece's January 25th snap election potentially voting in a party seeking to revise the terms of the country's bailout with international lenders. The European Central Bank is likely to soon embark on quantitative easing measures but analysts question its efficacy to fight off deflation and stimulate growth. Meanwhile, China's "new normal" growth trajectory will be a slower 7% as it seeks to reduce reliance on an investment-led growth model to one that is more sustainable and more balanced.

After recording a strong third quarter growth of 5.0%, the US economy is also expected to simmer down to a more sustainable growth rate of around 3.0%. Although the unemployment rate has further declined to 5.6%, wage growth remains anaemic. The US Federal Reserve will be "patient" in tightening policy and maintain an accommodative monetary stance for "a considerable period" of time. With recent strengthening of the Dollar coupled with the disinflationary impetus from sharply lower energy prices, any tightening will likely be done at a measured pace.

Despite the general slowdown in the global economy, we still expect developing Asian economies to grow at an annual rate of 5% to 6% . Later this year, the ASEAN Economic Community is expected to be officially launched. Newly installed President of Indonesia, Joko Widodo, has wasted little time and launched a number of initiatives to accelerate infrastructure development in Indonesia. With uncanny timing, the collapse in oil prices has allowed him to finally remove costly fuel subsidies freeing up valuable state funds for infrastructure and other developmental needs. In India, Prime Minister Narendra Modi has also impressed with a sense of urgency in tackling some of the economic bottlenecks and boosting the economic potential of Asia's third largest economy.

In China, President Xi Jinping has announced a series of important initiatives which can further augment the region's economic potential. Among these, the "Silk Road Fund" to boost connectivity across Asia with an initial US$40 billion contribution from China. The focus would be on China's "Silk Road Economic Belt" and "21st Century Maritime Silk Road", which aim to build roads, railways, ports and airports across Central and South Asia.

China has also launched the US$100 billion Asia Infrastructure Investment Bank which will provide additional development funding and complement the work of the Asian Development Bank and the World Bank. Further SOE (State-owned Enterprise) reforms are expected while more actions from the People's Bank of China can be expected to counteract any significant economic slowdown, including cuts in bank's Reserve Requirement Ratios to pump more liquidity into the banking system.

In Hong Kong, after the successful launch of the Shanghai-Hong Kong Stock Connect, plans are already afoot to build a trading link between the Shenzhen and Hong Kong stock exchanges. This is expected to materialize this year and will further expand our investable universe.

The oil price collapse should prove to be a net positive for Asia's mostly oil importing countries. We do not know where the bottom is but our sense is that oil price will settle back at the US$60 to $70 per barrel range given that many shale oil projects have cost structures that require a US$60 price to break even. The sharp falls seen in the oil and gas sector may therefore present attractive longer term buying opportunities.

With markets likely to remain volatile over the coming weeks, our 14% cash level gives us valuable optionality. With the recent price declines, our portfolio is now valued at only about 10.6x trailing earnings and 1.1x book value.

Daniel Chan
Melvin Tan
Alexis Tran
T.J Tan

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.