DCG Asia Value Fund

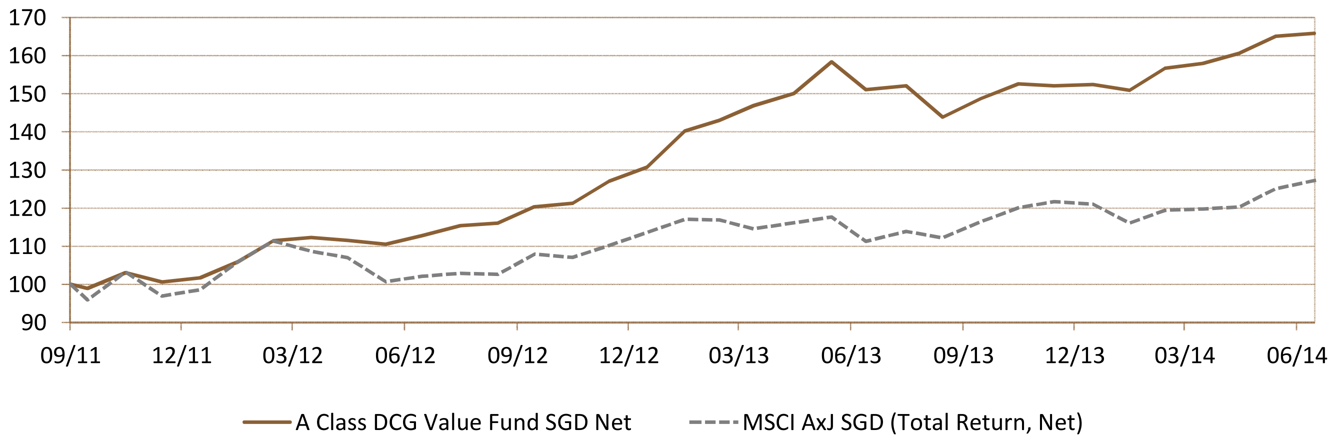
30 Jun 2014
Net NAV per share
A Class: S$ 165.86
M Class: S$ 113.95

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%							8.8%
M Class	-1.0%	4.4%	1.0%	2.0%	3.3%	0.6%							10.8%
MSCI AxJ	-4.1%	2.9%	0.3%	0.5%	4.0%	1.7%							5.1%

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%
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%
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%
MSCI AxJ									-4.1%	7.7%	-6.1%	1.7%	-1.4%

Fund Details

Portfolio Concentration	
No. of holdings	66
Top 10 holdings	22.8%
Top 20 holdings	41.2%

Size (equities)	
Small Cap (<US$1b)	36
Mid Cap (US$1b-$5b)	20
Large Cap (>US$5b)	10
Total	66

Top 5 Holdings

Universal Robina

D&L Industries

Tiga Pilar Food

FILA Korea

SATS Ltd

Fund Exposure

Country Exposure	
HK/ China	32.4%
Singapore	21.6%
Philippines	10.7%
Indonesia	7.5%
Malaysia	5.5%
Korea	3.6%
Thailand	2.5%
Vietnam	2.1%
Sri Lanka	1.5%
Taiwan	1.3%
Cash	11.4%
Total	100.0%

Sector Exposure	
Financials	22.7%
Consumer Discretionary	17.6%
Industrials	16.4%
Consumer Staples	9.4%
Energy	8.2%
Materials	7.1%
Information Technology	4.3%
Telecommunication Services	1.7%
Utilities	0.6%
Health Care	0.5%
Cash	11.4%
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*	19.9%	9.3%	1.93x	4.07x	1.38x	-9.2%
MSCI AxJ	9.0%	11.8%	0.60x	0.92x	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*	13.2x	1.4x	2.9%	790
MSCI AxJ	12.8x	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: 16/09/2011

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

Phone: +65 6592 5720 **Fax:** +65 6737 3946 **Email:** info@dcginvest.com **Website:** www.dcginvest.com

Important Notice

Report for Financial Year ended on 30th June 2014

Performance

For the financial year ended 30th June 2014, the Fund's Net Asset Value registered a gain of 9.8% with the NAV at S$165.86 per share. In comparison, the benchmark MSCI Asia ex Japan Index rose 14.4% over the same period.

Since the Fund's inception almost three years ago the Fund has achieved a 65.9% net return outperforming the benchmark's 27.3% gain. This result has been achieved with a level of volatility that is significantly lower than the benchmark's resulting in a high Sharpe Ratio[1] of 1.93x and an Information Ratio[2] of 1.38x. (See footnote for explanation of these measures of performance.)

In the July to December 2013 first half year, the Fund underperformed the benchmark by a wide margin (0.9% against 8.8%) after the Southeast Asian markets - Indonesia, Thailand and Philippines - in which the Fund was overweight fell sharply, falling 11.3%, 10.6% and 8.9% respectively following last Summer's "taper tantrums". The Indian Rupee's spectacular decline in August last year dragged other emerging markets' stocks and currencies down, including Southeast Asia's.

In the January to June 2014 second half, the Fund registered a better performance with a gain of 8.8% against the benchmark's 5.1%. Southeast Asian markets recovered strongly following the Rupee's spectacular recovery and Indian equities rose strongly as it became clear that Narendra Modi would take over as India's new Prime Minister. The reform-minded BJP leader's decisive election victory caused a significant upgrading of India's economic prospects over the coming years. Unfortunately, the Fund had zero exposure to this market and consequently did not benefit from this development.

For the financial year, besides India's 31% gain, the benchmark's 14.4% gain was also attributable in large part to the strong gains in the North Asian markets of South Korea (up 7.5%), Taiwan (up 16.5%) and Hong Kong (up 11.5%). Although we had good exposure to Hong Kong, we had only a small exposure in South Korea and virtually none in Taiwan.

During the financial year, we were active in our search for new ideas and made several trips to Malaysia, Hong Kong, China, Vietnam and Philippines and met more than 300 companies. As a result,

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[1] The Sharpe Ratio (named after Nobel Laureate William Sharpe who created it) for a portfolio or asset class, is a measure of the excess return over the risk free rate per unit of risk taken. Risk is proxied by the standard deviation of the portfolio return. The formula is $\frac{Portfolio\ Return - Risk\ Free\ Rate}{Standard\ Deviation\ of\ Portfolio\ Return}$.

[2] The Information Ratio is similar in concept to the Sharpe Ratio but, instead of using the excess return over a risk free rate, it is the excess return relative to the benchmark. Furthermore, instead of measuring risk in terms of standard deviation of returns, we use here the standard deviation of the "tracking error", which is the deviation of returns from the benchmark.

Standard deviation is a statistical measure of the variability of returns around its average. The higher the standard deviation, the more variable the periodic return is.

we have added 44 new positions and eliminated 29, and ended the year with a cash level of 11% and a 66 name portfolio of carefully researched, undervalued stocks.

Industry Exposure

The portfolio breakdown by industries and strategy buckets are as follows.

As at 30 June 2014, the Fund has invested in the following industries:

Industry	Percentage
Real Estate	17.0%
Capital Goods	10.5%
Food Beverage & Tobacco	9.4%
Energy	8.2%
Consumer Durables & Apparel	7.3%
Materials	7.1%
Retailing	6.8%
Transportation	4.9%
Banks	3.2%
Technology Hardware & Equipment	2.9%
Insurance	2.3%
Consumer Services	2.2%
Telecommunication Services	1.7%
Semiconductors & Semiconductor	1.3%
Automobiles & Components	1.2%
Commercial & Professional Services	0.8%
Utilities	0.6%
Health Care Equipment & Servicices	0.5%
Software & Services	0.1%

Real Estate – The stocks we own in the real estate industry are mostly in Hong Kong, China, Malaysia, Indonesia and Philippines. In Hong Kong, although residential prices are generally expected to soften in the near future, the market has indiscriminately sold down the entire sector. We have invested in the more conservatively run property companies with good quality assets and strong balance sheets with the larger companies trading at 0.5x to 0.6x of Revalued Net Asset Value ("RNAV") and the smaller ones at 0.2x to 0.3x RNAV. Besides giving us large margins of safety, most of the companies we own also pay good dividends while we wait for the discounts to narrow.

In Southeast Asia, we also have exposure to the low-end housing market where we see huge pent-up demand and shortages in places like Malaysia and the Philippines.

From a recent survey of the low-income consumer, after health and family, having a good home is one of their key priorities. Developers that provide affordable housing or cater to the home improvement needs of this group should benefit.

Capital Goods – included here are stocks like **Arwana Citra Mulia**, **AKR Corporindo**, **DKSH Malaysia** and **Sarine Technlology**. Though classified as capital goods, some of these names here are really consumer driven businesses like Arwana's ceramic tiles, and DKSH Malaysia's market expansion services covering fast moving consumer goods ("FMCG") and pharmaceuticals. Our rationale for investing in these stocks has been explained in previous letters.

Energy – this segment includes companies such as **Ezion** and **MTQ** that provide equipment and services to companies in the Oil and Gas ("O&G") sector. With high and relatively stable energy prices and growing demand from developing Asian economies, such companies have been experiencing strong demand for their services as O&G companies seek to extend the production lives of existing oil and gas fields in the region and also to explore for new ones.

Consumer Food & Beverage – in Southeast Asia, GDP per capita in countries like the Philippines and Indonesia have risen to levels where consumers can afford to consume more meat and have begun to buy more FMCG products such as snacks, confectionary, ready-to-drink ("RTD") beverages and ice cream. In the Philippines, we own **Universal Robina Corporation** ("URC"), which has dominant market shares in the Philippines' RTD drinks, snacks, confectionery and 3-in-1 coffee. We also own **RFM Corporation** which has over 40% market share in pasta noodles and a 73% market share in ice cream with its flagship brand, Selecta. In Indonesia, we own **Tiga Pilar** which sells dried noodles, rice, snacks and various confectioneries; and **Malindo Feedmill** which sells animal feed and day-old-chicks. In Vietnam, we own **Vietnam Dairy Products** which has a 39% share of the Vietnam dairy market and produces a full range of dairy products including UHT milk, fresh milk, yogurt, ice cream, cheese, powdered milk and infant formula.

The main drivers of consumption in these countries are the young demographics and a growing middle class with rising disposable incomes.

Indonesia's middle class population is expected to grow from 108 million to 141 million by 2020 while Thailand's is expected to increase from 38 million to 43 million. Philippines' middle class population, currently estimated at 25 million, is expected to grow over the next few years in line with the country's GDP growth of at least 5%.

Consumer Durables and Apparels – included here are names like **Samsonite**, the travel bag company, and **Fila Korea** which is in the sportswear and sport equipment business. Fila Korea also owns a 20.6% stake in Acushnet, a US sports goods company that owns Titleist, the largest selling brand of golf balls in the world, FootJoy golf shoes as well as ScottyCameron golf putters. Together with call warrants, Fila Korea can increase its ownership in Acushnet, which plans to go public in 2016, to 33%.

Materials – included here are names like **Greatview Aseptic** and **D&L Industries**. More detailed discussion on these two names will follow.

Retailing – includes **Dickson's Concepts**, a luxury goods retailer; **Goldlion**, the menswear company; and **Bonia**, the handbag and leather accessories company. We have spoken about Dickson's and Goldlion in earlier letters. Bonia will be covered in more detail later in this report.

Transportation – included here are **SATS**, **SIA Engineering**, and **Cardig Aero**, the Indonesian equivalent of SATS. These names have been written about quite extensively in our earlier letters to investors. We believe that regional air travel will continue to grow rapidly and these companies should benefit from this trend.

Portfolio Exposure by Buckets

We have constructed our portfolio based on a number of strategy buckets in order to diversify the portfolio's sources of returns. As at 30 June 2014, the portfolio exposure by strategy buckets is as follows:

Buckets	Exposure
Aggressive Growth	25.35%
Steady Growth	22.31%
Asset	14.80%
Moat	11.80%
Yield	9.86%
Special Situations	3.02%
Cyclical	1.46%
Cash	11.40%
Total	100.00%

The **Aggressive Growth** bucket consists of companies that have been and are likely to continue growing at more than 15% per year. As value investors, we do like fast growing companies, but it is important not to overpay for the expected growth. Crucial is the assessment of whether growth is the value creating or value destroying type. The average growth rate for the aggressive growth companies that we own is about 24% and include companies like **Tiga Pilar** and **Arwana Citra Mulia**.

The **Steady Growth** bucket holds companies which are expected to grow at a slower but more steady pace of between 10% to 15% per year. The weighted average growth rate for these companies in our portfolio is 13%. Examples of stocks in this bucket are **Wasion Group** and **Bonia**, whose net profits have been growing at five year compound annual growth rates ("CAGR") of 8.9% and 14.9% respectively.

The **Asset** bucket contains businesses that are trading significantly below their revalued assets. The weighted average price to RNAV ratio of the stocks in this portfolio is about 0.5x. Most of these stocks we own have also been providing us with steady dividend income while waiting for the values to be unlocked. Examples of companies in this bucket are property companies such as **Wharf Holdings** and **HongKong Land Holdings**.

The **Moat** bucket comprises companies with strong and durable competitive advantages, creating high barriers to entry. Such companies typically generate consistently high return on equity ("ROE"). The average ROE of this bucket is about 24% and include names like **Taiwan Semiconductor Manufacturing Company**, **DKSH Malaysia** and **AIA Group**.

The **Yield** bucket is made up of businesses that pay consistently good dividend yields to shareholders. The average dividend yield in this bucket is about 6%. Stocks like **Dickson Concepts** and **Goldlion** Holdings have been giving us good recurrent dividend income over the last two years.

Special Situations – these are mainly spin-offs and merger arbitrage situations. Since inception of the Fund, we have participated in a number of takeover situations and privatizations which provided us attractive, low risk returns. During the financial year, we took a position in **Great Wall Technology** which was the subject of a takeover offer from another Chinese technology company. We bought the stock at a 7.6% discount to the takeover price and realized the gains after a holding period of six months.

We would now like to highlight some of the companies which we own including some of the new additions made during the year as well as the top five contributors and five detractors to and from the Fund's performance:

Greatview Aseptic Packaging ("GaPack") manufactures and supplies aseptic packaging materials to milk companies and other beverage manufacturers for use in packaging UHT milk and non-carbonated soft drinks.

Although much smaller than the global leader TetraPak, GaPack sold 10.5 billion cartons with sales growing 23.8% in 2013. While sales in China still account for 86.1% of total revenue, international sales achieved significant volume growth during the year. In June 2013 it completed a 4 billion packs per annum factory in Halle, Germany to make further inroads into the European markets.

Although profits grew only marginally in 2013 due to higher raw material prices and start-up cost of the Halle Factory, GaPack has a promising future as the Chinese market for liquid milk products including UHT, fresh milk, yogurt and other milk beverages is expected to grow at more than 10% a year over the next five years.

Due to recurrent food safety issues and elevated retail prices of dairy products in China, the authorities have introduced new regulations to encourage consolidation among Chinese producers. Strong domestic players like Mengniu and Yili which are key customers of GaPack will benefit from such developments. Meanwhile in Europe, the dismantling of the milk quota scheme in 2015 will free up more dairy production and exports from Europe to the rest of the world, creating more business opportunities for Greatview.

<u>New Additions</u>

Taiwan Semiconductor Manufacturing Company ("TSMC") – Founded by Morris Chang in 1987, TSMC pioneered the dedicated integrated circuit foundry business model. This model allows IC design engineers to focus on designing new chips (microprocessors) while TSMC takes care of the entire production and manufacturing process.

The key to TSMC's success lies in its unparalleled customer service and top notch execution. It has acquired and developed a rich portfolio of technical tools and technology know-how which enable its customers to design and manufacture their chips successfully in a shorter time frame and at lower costs, crucial factors in this highly competitive and fast moving sector.

We expect the proliferation of semiconductor chips to continue for many years to come with the advent of more semiconductor chips used in smartphones, tablets, wearable technology and greener automotive. The never-ending need for miniaturization, lower power consumption and demand for cheaper electronics will continue to be growth drivers for TSMC in the years ahead.

Recently, TSMC has begun to supply microprocessors to Apple which hitherto relied solely on Samsung Electronics. This is a further testimony to TSMC's technological strength. The capital expenditure to build a new leading edge technology foundry today is estimated to be in the region of US$10 billion which few competitors can afford. This huge moat - its large scale, superior technology by investing ahead of demand, faster lead time and ability to cost down quickly - has resulted in TSMC dominating almost half the global market, while enjoying a high ROE of 20% to 30%.

The Wharf Holdings ("Wharf") - The Hong Kong and Kowloon Wharf and Godown Company, Limited was established in 1886 as a wharfage and docking warehousing company in Hong Kong. The late shipping tycoon Sir Yue-Kong Pau ("YK Pao") started acquiring stakes in the company since 1978 and took control in June 1980 with 49% ownership. The company adopted the current name in 1986. Wharf today owns prime real estate in Hong Kong like the Harbour City, Ocean Terminal and Times Square. Other holdings include i-CABLE, Cable TV and Wharf T&T, and Modern Terminals, a container handling operator in Hong Kong.

Wharf has built up a strong pipeline for growth of its investment properties in China under the brand name International Financial Square ("IFS"). Altogether, Wharf has five IFS projects coming up for completion over the next 3 years. Phase I of the Chengdu IFS, which includes a 2.2 million sqft shopping mall and a 1.3 million sqft office tower, was completed in 1Q14. The retail mall is already 96% pre-leased while the office tower has just commenced pre-leasing with 14% already committed and 16% in final discussion. The second phase of this project which includes a hotel, another office tower and one serviced apartment will open in late 2014 to 2015. Wharf is also completing the 2.5 million sqft Wuxi IFS in 2014, Chongqing IFS in 2015, and Suzhou and Changsha IFS in 2017. All the IFSs are located in prime Central Business Districts of the respective cities. When completed, Wharf's retail properties will grow from the current 7.9 million sqft to 11.5 million sqft by 2017.

Although we have concerns about the potential oversupply of shopping malls in China, we believe that there will be demand for high quality space in prime locations such as the ones that Wharf is offering.

Wharf has an excellent track record of enhancing shareholders' value and has grown the book value per share from HK$21 in 2003 to about HK$91 today. The stock is trading at HK$55, which is way below its book value. With a gearing of only 20%, Wharf has the ability to tap the international debt markets for funding if necessary.

Smartone is the number three mobile operator in Hong Kong with a 23% market share. As a result of intense competition among Hong Kong telcos over the last few years, the average monthly revenue per Hong Kong user is only US$24, significantly lower than most other developed markets like USA (US$45), Japan (US$38), Singapore and South Korea (US$34). Recently, CSL New World and Hong Kong Telecommunications (HKT) Limited have merged, reducing the number of major players from five to four. This should lead to more rational pricing. We also anticipate that as users consume more mobile data there will be opportunity for the telcos to re-price up their contracts resulting in margin improvements like what we have observed in Singapore recently.

After the stock had fallen from a peak of HK$16 per share to about HK$9 per share due to concerns over slowing handset sales and higher costs from the re-auctioning of 3G spectrum, we thought it was clearly undervalued, trading at less than 4.0x cash flow from operations, and added it to our portfolio.

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, founded over fifty years ago by the Lao family, was listed on the Philippines Stock Exchange only in late 2012. Among DNL's largest repeat customers, some of whom have been with DNL for over twenty years, are the major consumer brands in Philippines like Universal Robina, Jollibee Foods, and San Miguel.

We like DNL for its indirect exposure to Philippines' fast growing consumer sector, the stickiness of its customers (DNL owns the customized formulations making it difficult for customers to switch suppliers), and its ability to pass on most cost increases thereby preserving its profit margins. Since the company underwent restructuring prior to its IPO, it has no major capital expenditure commitments for the next few years. Sales volume growth has been encouraging and annual gross margin improvement of at least one percentage point each year for the next few years, as guided by management, have been on track.

Over the years, DNL's customers have embarked on a strategy of launching several new products each year. The use of more higher-margin, customised ingredients in these new products benefits DNL while further strengthening its relationship with customers. DNL's aerosol business is also promising given that aerosol usage in the Philippines is still very low.

We started buying shares in DNL at the end of 2013 when the stock price was about PHP6.10 per share. It had since appreciated over 80% to PHP11.0 today.

Top 5 Contributors

In the last 12 months these are the stocks that have contributed most to the portfolio's performance.

Pax Global ("Pax") is one of the world's largest developer and seller of electronic fund transfer point-of-sales terminals and related services, with a leading market share in China. Pax's stock price had a strong showing in the year, rising from about HK$1.7 per share in July 2013 to an all-time high of HK$5.15 in early June 2014.

The company continues to generate good revenue and earnings growth both in China and abroad, backed by solid cashflows and no debt. In June 14, the company announced that it had passed the verification process to be recognized as one of Shenzhen's Key Software Enterprises.

After the strong run-up, we sold our holdings in Pax as it had come close to our estimate of its intrinsic value.

Tiga Pilar is a major beneficiary of the large emerging middle class in Indonesia. With rising disposable income for the middle class, we expect this group of 108 million people will be able to afford better quality food and discretionary items. Tiga Pilar's main business lines comprise of food manufacturing, rice processing and distribution, and palm oil plantation in Indonesia. The company reported a strong first quarter on the back of continued strong earnings growth from its food manufacturing and rice divisions, and recovery in its palm oil business. Net sales grew 34% y-o-y to Rp1,153 billion while net profit attributable to shareholders jumped 49% y-o-y to Rp98 billion. Its food manufacturing business posted an impressive 58% y-o-y growth, driven primarily by dried noodle and vermicelli sales (up 92% y-o-y), and stronger sales of its Growie wafers and Taro extruded snacks (up 71% y-o-y). Tiga Pilar's rice business, one of the key growth drivers for the group in the next three to five years, grew 21% y-o-y in sales to IDR654 billion, contributing over 56% of group revenue. In April 2014, the company commissioned its second rice milling facility, doubling its capacity to 480,000 tons per annum.

Tiga Pilar is also looking at spinning off its plantation business, Bumiraya Investindo ("BRI"), via an IPO in the second half of 2014. BRI, which is 35% owned by Bungee, a leading US agriculture and food company, owns seven palm oil plantations with a total concession area of 93,000 hectares, of which only 16,740 hectares are planted.

In June, the company announced a 10% new capital issue via a private placement to a non-related party. The proceeds from this exercise will be used to expand the food manufacturing business and pay down debt.

The Fund has been investing in Tiga Pilar since May 2012, and it has proven to be one of our most rewarding investments, with the stock currently trading at about IDR2,300 per share, up from IDR570 in May 2012.

Bonia, a seller of ladies handbags and other leather goods, has a network of over 700 sales outlets and 70 boutiques in Singapore, Malaysia, Vietnam and Phillippines. Its portfolio of brands include Bonia, Braun Buffel, Sembonia, Carlo Rino, Rudy Valentino, and Bruno Magli. Management has been buying back shares at below MYR2, and have attempted to privatize the company at MYR2.04 a share when the family's stake crossed 50% in October 2012. Bonia is considered a mid-tier brand in Southeast Asia, where its growth has largely been driven by its operations in Vietnam and Indonesia.

Braun Buffel which competes in the higher-end leather accessories market in Southeast Asia has also been doing well. In the first three quarters ending March 2014, Bonia's topline grew 10% and operating profit grew 25% y-o-y.

We started acquiring the company's shares at about MYR1.80 a share in May 2013, which was lower than the attempted privatization offer price. As at end June 2014, the stock price has risen to MYR5.44, trading at a PE ratio of 19.5x, with a net cash balance of MYR21 million on its balance sheet. We have top sliced our positions due to the reduced margin of safety at these elevated prices.

Sarine Technologies ("Sarine") is the developer, manufacturer and seller of equipment systems for diamond and gemstone scanning, cutting, polishing, grading, certification and light performance. Sarine continues to report strong business results with 1Q14 revenue and profit before tax increasing 20% and 18% y-o-y respectively. Gross profit margins increased one percentage point from the year before to 73% due to increasing contribution from higher-margin recurring businesses.

Sarine recently launched two new imaging systems to target the polished diamond online and retail trade. The Sarine Light system provides an objective measure of a polished diamond's appearance through its light performance. The Sarine Loupe system creates a high-quality, significantly enlarged multi-angle image of a polished diamond so that the viewer or potential buyer can inspect it through a conventional loupe without the diamond physically present. The successful launch of these two systems over the next three to five years could boost Sarine's sales and earnings significantly.

Other significant recent updates include the November announcement of a five-year collaboration with New York Diamond Dealers' Club ("NYDDC"), the largest diamond trade organization in the United States (the world's largest market for diamond jewellery sales) and one of the leading diamond exchanges in the world. In the strategic agreement, NYDDC will exclusively promote and market Sarine's products to the US diamond industry in return for Sarine providing the latest technology for the use of NYDDC's members. Sarine also announced a tie-up with the Rapaport Group's RapNet, a web-based diamond trading network, to enhance online trade by providing diamond imagery produced by Sarine Loupe (on a pay-per-stone basis) alongside data on the diamond from the Gemological Institute of America.

The company's share price trades at a forward PE ratio of about 24x and has appreciated over 90% in the financial year.

DKSH Malaysia ("DKSH (M)") was established in 1923 in Penang and has been listed on the Kuala Lumpur Stock Exchange since 1994. DKSH Malaysia is a 74%-owned subsidiary of the Zurich-based DKSH Group. The company provides logistic services for consumer and healthcare products and market expansion services ("MES") for FMCG companies. It also owns the "Famous Amos" chocolate cookies chain, comprising of 88 stores across Malaysia.

MES entails all activities of the entire value chain of a product from sourcing, research and analysis, marketing, sales, distribution and logistics to after sales services. DKSH offers one-stop-shop solutions to clients who are looking for quick market access, local knowledge and a trustworthy business partner in the emerging Asia markets.

With more than 90 years in the Malaysia market, DKSH (M) has established strong relationships with over 130 main clients, including the MNCs and local companies like Old Town, Vico, Maxis, supplying consumer products to over 25,000 retail outlets in Malaysia. In the healthcare logistics business, DKSH (M) distributes products for more than 69 international and local healthcare companies, reaching over 10,000 customers across various doctors' clinics, retail pharmacies, private hospitals, government hospitals and institutions, and selected wholesalers.

While profit margins are thin, the company achieves a relatively high ROE (above 16% since 2010) as DKSH (M) operates an asset light, fast asset turnover model, in line with the parent company's strategy. Over the past 10 years, sales and earnings have grown at an average rate of 7.9% and 17.9% respectively. In 2013, the company reported 7.5% and 7.2% growth in its top line and core operating profit respectively.

Among our seven portfolio building blocks, we placed DKSH (M) in the **Moat** bucket as we believe its extensive distribution network, its comprehensive range of market expansion services, and the depth of relationships between DKSH and its existing customers built over the last hundred plus years are difficult to replicate.

When we first came across the idea, DKSH (M) was selling at a PE ratio of only 5x and was little followed by the street. Since then, the stock has attracted more investor interest and been re-rated massively to a current PE ratio of about 16x.

Top 5 Detractors

In the last 12 months the following five stocks have detracted from the performance of the Fund.

Tat Hong is the largest crane rental company in Asia. Tat Hong's share price dropped from about S$1.20 in August 2013 to a low of S$0.72 before rebounding to over S$0.90 at end June 2014. The stock was sold down following the drop in sales and profit due to the downturn in the mining and exploration sectors in Australia and Indonesia. Overall revenue for the financial year ended March 2014 dropped 18.2% y-o-y to S$684 million while net profit plunged 53.4% to S$33 million. Contribution from Australia dropped 22% y-o-y with revenue declining across crane rental, general equipment rental and equipment distribution businesses. The crane rental division, which is the most profitable business segment and largely dependent on Australia, posted a 15.5% drop in revenue and a 4 percentage point decline in gross profit margin. In Indonesia, Tat Hong's excavator distribution business was impacted by the weak Rupiah and declining demand from miners due to falling commodity prices and the export ban on unrefined ores. We have sold out all our positions as fundamentals have clearly deteriorated and the outlook remains dim.

Yongnam specializes in structural steel and owns one of the largest stocks of strutting assets in Singapore. Strutts provide vital structural support for underground works to prevent the walls from collapsing inwards. We had liked the stock as its market capitalisation was already equivalent to the value of its strutting assets. However, its earnings are quite lumpy and volatile, dependent on its ability to secure new contracts. Yongnam, being a subcontractor, was exposed to Alpine Bau, the main contractor for MRT Downtown Line 2, which incurred significant losses on the project and became insolvent. Besides, Yongnam was not able to win the Myanmar airport contract as was expected. We decided to sell all our positions and switch to other better ideas.

Sinar Mas Land is a Singapore-listed property company with assets in Indonesia, Singapore, Malaysia and China. The major assets of Sinar Mas Land includes a 49.9% stake in the Jakarta-listed developer, Bumi Sepong Damai ("BSD"), 50% stake in industrial estate Kota Deltamas, 128,000 sqft of retail and office space at Orchard Tower in Singapore, and 9.5 million sqft of resort land and a 330 room five-star hotel at Palm Resort, near Senai, Johor, Malaysia. There were concerns about the slowing sell through rates of the properties at BSD after Bank Indonesia tightened mortgage lending last year. Since 30 September 2013, home buyers in Indonesia are required to pay a 30% down payment for the purchase of the first property of larger than 70 square meters. This goes up to 40% of the property price for the second property, and will increase to 50% for the third property purchased. We still own the stock as we like the longer term outlook of the Indonesia property market and the shares as well as warrants continue to trade at a large discount to RNAV.

AKR Corporindo ("AKR") sells non-subsidized fuel to industrial clients and distributes subsidized fuel to retail customers through its own 116 gas stations network in Indonesia. The company recently experienced falling demand for fuel from industrial customers due to weak coal prices and new laws banning the export of unrefined ore. For the first quarter of its financial year, consolidated sales registered only a 3.5% y-o-y growth to IDR5,630 billion mainly due to lower sales volume of petroleum. As an example, the volume of petroleum sales to Freeport Indonesia, a subsidiary of US-based Freeport McMoRan Copper & Gold, dropped 19% y-o-y due to the halting of mining activities following the export ban on copper ores and introduction of progressive tax on concentrates in January this year. Diesel sales to the coal mining industry in Kalimantan also suffered a decline in volume as the Newcastle coal price is at its lowest since 2009.

Subsidized fuel sales, on the other hand, saw a 114% increase in volume sales to 54,075 kiloliter from 22,196 kiloliter in 1Q13. AKR is the only publicly listed company in Indonesia with permission to distribute subsidized petroleum and has already garnered a 5% market share in this segment. For the year 2014, AKR's allocation for subsidized fuel distribution quota is 640,000 kiloliters, which is more than double the 2013 allocated quota of 238,000 kiloliters. The company added 13 gas stations to its existing 103 outlets nationwide in 1Q14 and plans to commission a total of 132 gas stations by end of 2014.

As fuel subsidies are further reduced along with the on-going liberalization of fuel distribution in Indonesia, we believe AKR has a significant first mover advantage to increase its share of the retail fuel market. After 50 years in the petroleum and basic chemicals distribution business, AKR has built up an extensive infrastructure in ports, tank terminals and related logistic infrastructure in

Indonesia, and has commenced construction of its Integrated Port and Industrial facility in East Java in 2013 as a strategic move to support the anticipated growth in logistics demand in this region. While we are mindful about the risks of owning a thin margin, high working capital requirements business, we like AKR's hard-to-replicate business moat in fuel distribution and logistics in Indonesia and hence decided to hold this investment.

Malindo is a vertically integrated poultry company in Indonesia. It recently reported two consecutive weak quarters with profit margins of poultry feeds impacted by the surge in input costs following the 20% drop in Rupiah-U.S. dollar exchange rate in 3Q 2013. The 9% increase in average selling price in 4Q 2013 has partially restored feed margins. However, the group's day-old-chick ("DOC") business was affected by the Indonesian regulator's surprise decision to impose price caps on DOC selling price since March 2014 as part of its effort to control inflation before the country's elections in July 2014. Prices of poultry stocks in Indonesia, and Malindo Feedmill's in particular, has corrected 20-30% since 4Q 2013. Despite this short-term setback, we believe demand for poultry in the most populous country in Southeast Asia will continue to grow strongly in the coming years on the back of the growing disposable incomes and rising meat consumption of Indonesia's growing middle class.

After the price surge to the range of Rp3,600 to Rp3,800, we reduced our positions but continue to hold the stock in our portfolio.

Conclusion

Despite some near term macro-economic and geopolitical concerns (there will always be something to worry about), we are optimistic about the Fund's prospects for the coming years.

We continue to find many exciting new ideas as we screen through the regional markets and as we travel and brainstorm with brokers, industry players and even the companies which we have invested with. Asia, the region that we invest in, still has plenty of growth ahead with per capita GDP only a fraction of developed countries. Despite the tremendous strides made over the last 30 years, China is only ranked 72nd out of 196 countries in terms of per capita GDP at US$6,807 in 2013. India is at 140th with a GDP of US$1,498 per capita while Philippines', Indonesia's and Thailand's are at US$2,765, US$3,475, and US$5,779 respectively (the average for the OECD nations is US$36,427).

While Asian markets will not be immune to the va garies of Wall Street and other geopolitical shocks that may occur from time to time, we believe the longer term secular forces are compelling for Asia's growth outlook.

Besides China and India, the ASEAN countries have very favourable economic fundamentals. These include young populations, low debt to GDP ratios, rising Foreign Direct Investment and productivity and a fast growing middle class.

By December 2015, the ASEAN Economic Community ("AEC") is supposed to become reality although indications are that it will likely be delayed. The 10 countries of AEC with a population of 630 million people has a combined GDP of over US$2.4 trillion, which is larger than the economy of

India (US$1.9 trillion) would constitute the seventh largest economy in the world. While corruption, lack of good infrastructure and strong governance institutions continue to be major hurdles hampering growth we believe these issues are being addressed and we have already seen real progress made over the recent years.

On the topic of macroeconomic views and opinion, Warren Buffet, the legendary investor has this to say:

> *Forming macro opinions or listening to the macro or market predictions of others is a waste of time. Indeed, it is dangerous because it may blur your vision of the facts that are truly important. (When I hear TV commentators glibly opine on what the market will do next, I am reminded of Mickey Mantle's scathing comment: "You don't know how easy this game is until you get into that broadcasting booth"*
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> *Berkshire Hathaway – Annual Report 2013*

We will leave you with a section from the most recent Berkshire Hathaway 2013 Annual Report, where Buffett shares some of his wisdom on investing and weathering a downturn. We would also like to take this opportunity to thank our investors for your support during these 2.5 years, and will continue in our "Relentless Search for Value" to grow the value of our Fund.

Appendix

Some Thoughts about Investing

Investment is most intelligent when it is most businesslike.

— The Intelligent Investor by Benjamin Graham

It is fitting to have a Ben Graham quote open this discussion because I owe so much of what I know about investing to him. I will talk more about Ben a bit later, and I will even sooner talk about common stocks. But let me first tell you about two small non-stock investments that I made long ago. Though neither changed my net worth by much, they are instructive.

This tale begins in Nebraska. From 1973 to 1981, the Midwest experienced an explosion in farm prices, caused by a widespread belief that runaway inflation was coming and fueled by the lending policies of small rural banks. Then the bubble burst, bringing price declines of 50% or more that devastated both leveraged farmers and their lenders. Five times as many Iowa and Nebraska banks failed in that bubble's aftermath than in our recent Great Recession.

In 1986, I purchased a 400-acre farm, located 50 miles north of Omaha, from the FDIC. It cost me $280,000, considerably less than what a failed bank had lent against the farm a few years earlier. I knew nothing about operating a farm. But I have a son who loves farming and I learned from him both how many bushels of corn and soybeans the farm would produce and what the operating expenses would be. From these estimates, I calculated the normalized return from the farm to then be about 10%. I also thought it was likely that productivity would improve over time and that crop prices would move higher as well. Both expectations proved out.

I needed no unusual knowledge or intelligence to conclude that the investment had no downside and potentially had substantial upside. There would, of course, be the occasional bad crop and prices would sometimes disappoint. But so what? There would be some unusually good years as well, and I would never be under any pressure to sell the property. Now, 28 years later, the farm has tripled its earnings and is worth five times or more what I paid. I still know nothing about farming and recently made just my second visit to the farm.

In 1993, I made another small investment. Larry Silverstein, Salomon's landlord when I was the company's CEO, told me about a New York retail property adjacent to NYU that the Resolution Trust Corp. was selling. Again, a bubble had popped – this one involving commercial real estate – and the RTC had been created to dispose of the assets of failed savings institutions whose optimistic lending practices had fueled the folly.

Here, too, the analysis was simple. As had been the case with the farm, the unleveraged current yield from the property was about 10%. But the property had been undermanaged by the RTC, and its income would increase when several vacant stores were leased. Even more important, the largest tenant – who occupied around 20% of the project's space – was paying rent of about $5 per foot, whereas other tenants averaged $70. The expiration of this bargain lease in nine years was certain to provide a major boost to earnings. The property's location was also superb: NYU wasn't going anywhere.

I joined a small group, including Larry and my friend Fred Rose, that purchased the parcel. Fred was an experienced, high-grade real estate investor who, with his family, would manage the property. And manage it they did. As old leases expired, earnings tripled. Annual distributions now exceed 35% of our original equity investment. Moreover, our original mortgage was refinanced in 1996 and again in 1999, moves that allowed several special distributions totaling more than 150% of what we had invested. I've yet to view the property.

Income from both the farm and the NYU real estate will probably increase in the decades to come. Though the gains won't be dramatic, the two investments will be solid and satisfactory holdings for my lifetime and, subsequently, for my children and grandchildren.

I tell these tales to illustrate certain fundamentals of investing:

- You don't need to be an expert in order to achieve satisfactory investment returns. But if you aren't, you must recognize your limitations and follow a course certain to work reasonably well. Keep things simple and don't swing for the fences. When promised quick profits, respond with a quick "no."
- Focus on the future productivity of the asset you are considering. If you don't feel comfortable making a rough estimate of the asset's future earnings, just forget it and move on. No one has the ability to evaluate every investment possibility. But omniscience isn't necessary; you only need to understand the actions you undertake.
- If you instead focus on the prospective price change of a contemplated purchase, you are speculating. There is nothing improper about that. I know, however, that I am unable to speculate successfully, and I am skeptical of those who claim sustained success at doing so. Half of all coin-flippers will win their first toss; none of those winners has an expectation of profit if he continues to play the game. And the fact that a given asset has appreciated in the recent past is never a reason to buy it.
- With my two small investments, I thought only of what the properties would produce and cared not at all about their daily valuations. Games are won by players who focus on the playing field – not by those whose eyes are glued to the scoreboard. If you can enjoy Saturdays and Sundays without looking at stock prices, give it a try on weekdays.
- Forming macro opinions or listening to the macro or market predictions of others is a waste of time. Indeed, it is dangerous because it may blur your vision of the facts that are truly important. (When I hear TV commentators glibly opine on what the market will do next, I am reminded of Mickey Mantle's scathing comment: "You don't know how easy this game is until you get into that broadcasting booth.")
- My two purchases were made in 1986 and 1993. What the economy, interest rates, or the stock market might do in the years immediately following – 1987 and 1994 – was of no importance to me in making those investments. I can't remember what the headlines or pundits were saying at the time. Whatever the chatter, corn would keep growing in Nebraska and students would flock to NYU.

There is one major difference between my two small investments and an investment in stocks. Stocks provide you minute-to-minute valuations for your holdings whereas I have yet to see a quotation for either my farm or the New York real estate.

It should be an enormous advantage for investors in stocks to have those wildly fluctuating valuations placed on their holdings – and for some investors, it is. After all, if a moody fellow with a farm bordering my property yelled out a price every day to me at which he would either buy my farm or sell me his – and those prices varied widely over short periods of time depending on his mental state – how in the world could I be other than benefited by his erratic behavior? If his daily shout-out was ridiculously low, and I had some spare cash, I would buy his farm. If the number he yelled was absurdly high, I could either sell to him or just go on farming.

Owners of stocks, however, too often let the capricious and often irrational behavior of their fellow owners cause them to behave irrationally as well. Because there is so much chatter about markets, the economy, interest rates, price behavior of stocks, etc., some investors believe it is important to listen to pundits – and, worse yet, important to consider acting upon their comments.

Those people who can sit quietly for decades when they own a farm or apartment house too often become frenetic when they are exposed to a stream of stock quotations and accompanying commentators delivering an implied message of "Don't just sit there, do something." For these investors, liquidity is transformed from the unqualified benefit it should be to a curse.

A "flash crash" or some other extreme market fluctuation can't hurt an investor any more than an erratic and mouthy neighbor can hurt my farm investment. Indeed, tumbling markets can be helpful to the true investor if he has cash available when prices get far out of line with values. A climate of fear is your friend when investing; a euphoric world is your enemy.

During the extraordinary financial panic that occurred late in 2008, I never gave a thought to selling my farm or New York real estate, even though a severe recession was clearly brewing. And, if I had owned 100% of a solid business with good long-term prospects, it would have been foolish for me to even consider dumping it. So why would I have sold my stocks that were small participations in wonderful businesses? True, any one of them might eventually disappoint, but as a group they were certain to do well. Could anyone really believe the earth was going to swallow up the incredible productive assets and unlimited human ingenuity existing in America?

Berkshire Hathaway, Inc. (2013) *2013 Annual Report*. Retrieved from:
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