DCG Asia Value Fund

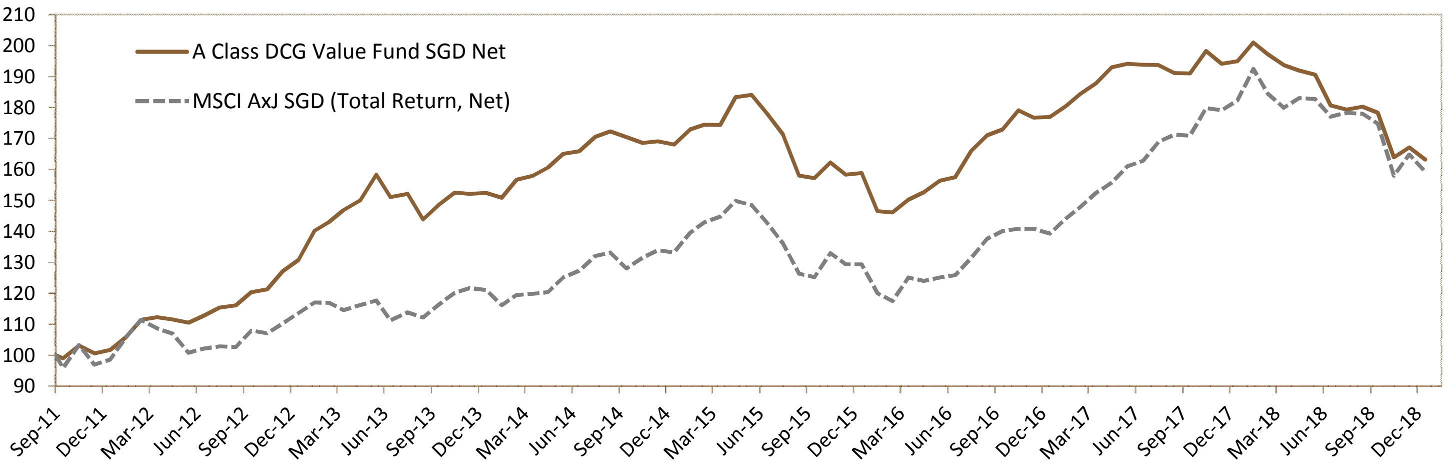
December 2018
NAV: SGD163.2 ('A' Class)

DCG capital

Fund Overview

The investment objective of the Fund is to achieve long term capital growth through investments primarily in publicly listed and traded stocks and shares of companies in Asia ex-Japan. The Investment Manager employs a value investing approach in managing the Fund. Using a bottom-up approach, it will seek to identify from within the above mentioned investment universe, attractive long term investment opportunities that the Manager reasonably believes adequately satisfy stringent selection criteria in terms of quality and valuations.

Cumulative Fund Returns SGD* VS MSCI AxJ SGD[1]



Monthly Net Returns* (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Fund YTD	Index YTD
2018	3.1	-1.9	-1.8	-0.9	-0.7	-5.2	-0.8	0.5	-1.0	-8.1	2.0	-2.3	-16.3	
Index[1]	5.6	-4.1	-2.5	1.7	-0.2	-3.1	0.7	-0.2	-1.8	-9.6	4.3	-3.4		-12.7
2017	2.0	2.2	1.8	2.8	0.6	-0.2	0.0	-1.4	0.0	3.8	-2.1	0.4	10.2	30.9
2016	-7.7	-0.3	2.8	1.6	2.4	0.7	5.4	3.1	1.1	3.6	-1.3	0.1	11.4	7.7
2015	2.9	0.9	-0.1	5.2	0.4	-3.3	-3.9	-7.7	-0.5	3.2	-2.4	0.4	-5.5	-2.8
2014	-1.0	3.8	0.8	1.7	2.8	0.5	2.8	1.0	-1.1	-1.1	0.3	-0.6	10.3	10.0
2013	7.2	2.0	2.7	2.2	5.5	-4.6	0.6	-5.4	3.4	2.6	-0.3	0.2	16.5	6.5
2012	4.1	5.3	0.7	-0.6	-0.9	2.0	2.3	0.6	3.7	0.8	4.8	2.9	28.6	15.3
2011									-1.1	4.2	-2.4	1.1	1.7	-1.4
Inception to Date[2] (%)													**63.2**	**59.2**

*Current year returns are unaudited. Past performance is not indicative of future results. References to the MSCI AxJ SGD index do not include expenses that an investor may bear. The net returns of the Fund are based on published results to an original investor net of fund expenses, management fees (1.25%) and incentive allocation (12.5%). The incentive allocation is accrued monthly although the fee is charged at year end.

(1) MSCI Asia ex-Japan SGD Index (total returns, including dividends reinvested)

(2) Inception-to-date performance for SGD A Class and MSCI AxJ are computed from 16 September 2011, the date of Fund inception.

Statistical Analysis

Risk/Return[3]	Fund, net[4]	Index
Annualized Return (%)	6.9	6.6
Standard Deviation (%)	10.0	11.9
Sharpe Ratio (x)	0.49	0.39
Sortino Ratio (x)	0.81	0.62
Information Ratio (x)	0.05	N/A
Peak to Trough (%)	-20.6	N/A

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

(4) Net of management fees and incentive allocation

Portfolio Concentration

No. of holdings	40
Top 10 holdings (%)	34.8
Top 20 holdings (%)	53.7

Fund Exposure

Country Exposure (%)	
Singapore	23.7
HK/ China	23.7
Thailand	5.6
Philippines	5.9
Taiwan	3.4
Indonesia	2.8
Korea	2.3
Vietnam	1.4
Malaysia	0.6
Cash	30.7
Total	100.0

Sector Exposure (%)	
Financials	19.5
Consumer Discretionary	15.4
Industrials	12.3
Information Technology	8.0
Consumer Staples	5.3
Real Estate	4.7
Communication Services	3.5
Energy	0.6
Cash	30.7
Total	100.0

Fund Details

Size (equities)[5]	
Small Cap (<US$1b)	17
Mid Cap (US$1b-$5b)	7
Large Cap (>US$5b)	13
Total	37

(5) Median market capitalization US$1,255 mil

(5) Holdings exclude two bonds and one warrant

Top 5 Holdings

Jardine Cycle & Carriage Ltd
Oriental Watch Holdings
SBS Transit Ltd
Ping An Insurance Group Co of China Ltd
Industrial & Commercial Bank of China Ltd

Fund Information

Domicile	Cayman Islands
Fund Administrator	Portcullis Fund Administration (S)
Custodian	Deutsche Bank AG, Singapore Branch
Fund Auditor	Ernst & Young Solutions LLP
Legal Advisers	Rajah & Tann Singapore LLP
Fiscal Year End	June 30th

Terms

Minimum Initial Investment	S$150,000
Minimum Subsequent Investment	S$10,000
Early Redemption Fee[i]	3% in 1st year; 2% in 2nd year; 1% in 3rd year
5% Redemption Option[ii]	Elect annually by 30 June, valued at July-end NAV
Redemption Frequency	Once a quarter at quarter-end NAV, with 1 month notice
Subscription Frequency	Once a month at month-end, with 1 week notice
Management Fee / Performance Fee[iii]	1.25% / 12.5%

[i]Retained in the Fund for Fund investors

[ii]Early redemption fee will be waived

[iii]Applicable only to A Class shares

Contact Information

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Important Notice

DCG Asia Value Fund

December 2018
NAV: SGD85.8 ('S' Class)

Monthly Net Returns* (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Fund YTD	Index YTD
2018	2.9	-1.7	-1.6	-0.6	-0.6	-5.1	-0.7	0.6	-1.0	-8.0	2.1	-2.2	-15.1	
Index(1)	5.6	-4.1	-2.5	1.7	-0.2	-3.1	0.7	-0.2	-1.8	-9.6	4.3	-3.4		-12.7
2017							0.0	-1.2	0.1	3.6	-1.8	0.5	1.0	12.0
Inception to Date(2) (%)													**-14.2**	**-2.2**

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(1) MSCI Asia ex-Japan SGD Index (total returns, including dividends reinvested)

(2) Inception-to-date performance for SGD S Class and MSCI AxJ are computed from 01 July 2017, the date of S Class inception.

Monthly Net Returns* (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Fund YTD	Index YTD
2018	4.9	-2.7	-1.2	-1.7	-1.4	-6.9	-0.7	-0.3	-0.6	-9.4	3.0	-1.7	-17.9	
Index(1)	7.6	-5.0	-1.5	0.7	-1.3	-4.8	0.8	-1.0	-1.4	-10.8	5.3	-2.7		-14.4
2017	5.0	3.0	2.1	2.8	1.5	0.2	1.4	-1.3	-0.1	3.2	-1.2	1.2	19.0	41.7
2016	-8.1	0.9	7.2	1.9	-0.3	3.0	5.9	1.3	1.1	1.5	-4.3	-0.9	8.7	5.4
2015			-0.8	8.6	-1.2	-3.2	-5.6	-10.3	-1.3	4.8	-3.1	-0.1	-12.7	-13.0
Inception to Date(2) (%)													-7.2	11.3

*Current year returns are unaudited. Past performance is not indicative of future results. References to the MSCI AxJ index do not include expenses that an investor may bear. The net returns of the Fund are based on published results to an original investor net of fund expenses, management fees (1.25%) and incentive allocation (12.5%). The incentive allocation is accrued monthly, although the fee is charged at year end.

(1) MSCI Asia ex-Japan Index (total returns, including dividends reinvested)

(2) Inception-to-date performance for USD A Class and MSCI AxJ are computed from 01 Mar 2015, the date of USD A Class inception

DCG Asia Value Fund

December 2018
NAV: USD98.3 ('S' Class)

Monthly Net Returns* (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Fund YTD	Index YTD
2018												-1.7	-1.7	
Index[(1)]												-2.7		-2.7
Inception to Date[(2)] (%)													-1.7	-2.7

*Current year returns are unaudited. Past performance is not indicative of future results. References to the MSCI AxJ index do not include expenses that an investor may bear. The net returns of the Fund are based on published results to an original investor net of fund expenses and incentive allocation. The incentive allocation is accrued monthly although the fee is charged at year end.

(1) MSCI Asia ex-Japan Index (total returns, including dividends reinvested)

(2) Inception-to-date performance for USD S Class and MSCI AxJ are computed from 01 Dec 2018, the date of USD S Class inception

Dear Investor,

Performance

The Fund (A Class SGD) NAV ended 2018 at S$163.2, down 16.3% and 8.4% for the year and quarter ended December 2018, respectively. In comparison, the MSCI Asia Ex Japan Index declined 14.7% in SGD terms (16.4% in USD) for the year and 9.2% in SGD terms over the quarter.

We are an absolute return strategy fund, so the 2018 performance in absolute terms is disappointing. If it's any consolation at all, the DCG investment team also has significant personal investments in the Fund so your pain has also been ours. Needless to say, the team will be working hard to turn things around.

The environment in 2018 had been particularly challenging. Last October was particularly brutal as our NAV fell 8.1%, our biggest one-month drawdown since inception. We recovered some ground in November but then followed a tumultuous December when US stocks plummeted with the S&P 500 down 9.2%. Asian markets sold off in sympathy although the fall was more muted.

The US-China trade war was the main factor affecting Asian stocks in 2018. Virtually every market registered steep losses. China being directly in the firing line fell the most with Shanghai and Shenzhen falling 25% and 34% respectively and Hong Kong losing 14%. ASEAN markets fared better but still registered mid to high single digit losses.

We were perhaps too sanguine earlier in the year, thinking that rationality would prevail, especially when high stakes are involved. In the event, Trump 'The Tariff Man' went ahead to impose tariffs and China retaliated. US stocks continued marching upwards while China's market tanked, encouraging the thinking that trade wars are indeed "easy to win".

Besides trade war-related uncertainties, China's economy was also dragged lower by concerns over the high leverage that had built up in the recent years.

Portfolio Update

During the 4th quarter, we removed 8 names and added 3, and now own 36 equity positions. On December 1, the Fund's cash position rose significantly after a new subscription from ex-New Harbour investors.

With heightened market volatility, especially on Wall Street, and more signs of economic slowdown, we were cautious to deploy the cash into the market, resulting in a rather high cash level at year-end. We expect to deploy the cash in due course, taking advantage of market volatility and as our assessment of the market outlook becomes clearer.

Oriental Watch

Oriental Watch remains one of our top 5 holdings. The 58-year-old group operates mainly in Hong Kong but has outlets in China, Macau and Taiwan. Its impressive brand portfolio of Swiss watches includes venerable brands like Rolex and Patek Philippe.

The group, which has a March FY, posted results for the six months to September of sales 21% lower yoy but profit up 38%. Sales declined due to a deliberate strategy to shift the sales mix from the lower-margin wholesale trade to the more profitable direct sales. Retail revenue mix grew from 70% to 91% yoy. Same-store sales in fact inclined 9% year-on-year. Gross profit margin rose significantly from 16.8% to 24.4% and net margin improved to 5.4% from 3.1%. The company declared an interim dividend of HK2.8 cents plus special dividend of HK8.7 cents. Oriental Watch reduced rental expenses by 6.9% after negotiating with landlords and closing unprofitable, high-rental outlets. The company learnt from past experience and became much more disciplined in inventory management.

The balance sheet is pristine with net cash of HK$1.1bn, and inventory worth HK$0.9bn. At a market cap of HK$1.2bn, the stock is trading near its cash level and a huge discount to net current assets, not to mention total shareholder equity of HK$2.2bn. Unlike most other types of inventory, watches don’t depreciate in value – a Rolex remains sought after regardless of the year it was made.

Oriental Watch stands to gain from the development of the Greater Bay Area (Hong Kong-Zhuhai-Macau-Guangzhou) which will be further stimulated by the greater connectivity post-completion of the Hong Kong–Zhuhai–Macau Bridge as well as Guangzhou-Shenzhen-Hong Kong Express Rail Link. At current prices however, none of this appears to be priced in. Perhaps investors are skeptical about management’s intentions regarding all the cash and free cash flow coming in but we see it as very undervalued, providing a huge margin of safety.

Since we invested in Oriental Watch in January 2018 at a price of between HK$1.90 and HK$2.10, we have received generous dividends – HK$0.230 in August and HK$0.115 in December, totaling HK$0.335. Today, the share price still trades around HK$2.00, having leapt to HK$2.86 in May.

Historically, the stock has traded within a PE Ratio band of 3.2-11.4x with an average of 7.5x. By book value, it had always traded at a steep discount. At HK$2.00 currently, it trades at 0.52x book value of HK$3.83. While it will probably continue to be at a wide discount, we are content to enjoy receiving healthy dividends regularly and the occasional special dividend.

SBS Transit ("SBS")

One of the largest positions in the Fund is SBS Transit (SBUS). We've been in the stock since 2016. This write-up is an update of what's happened since and what we think about Singapore's land transport policy moving forward.

First, a recap on SBUS for new readers. It has a market cap of S$850mn, debt of S$100mn, and trades at 1.8x book with 4% dividend yield. It operates two metro transit rail lines in Singapore as well as public bus routes. The bus division generates 60-75% of its profit and rail, the rest. Its 3,000-strong bus fleet is double that of the No. 2 player, Temasek-owned SMRT Corp.

We bought SBUS as it changed from an asset-heavy to asset-light model. Post-2016, the land transport regulator is responsible for asset ownership and capital expenditure, while transport operators essentially ensure buses or rail cars turn up on time. Bonuses and penalties are awarded or levied if operating metrics (such as reduced downtime) are achieved or missed. Bus operators do not take fare or ridership risk. Except for the Downtown metro line, SBUS has no fare risk.

Now the update: the movie has more or less turned out as expected. More of a slow romantic comedy, less of a thriller/horror show. The stock in the past 2 years has shown little volatility and only moved +19%. Net profit for 2017 was up 50% over 2016 and for 2018 is likely to be 60% higher over the previous year. Operating cashflow or EBITDA has expanded significantly, with 2018 standing at S$180-190mn. Semi-annual dividends have also more than doubled, from 2.35 cents per share in 2016 to 5.8 cents for 6M2018.

Two dark clouds that mar the story have been the poor consumer environment in Singapore and rail fare reduction.

About 1/3 of company profit comes from advertising and other commercial services. Dampened demand for advertising in general as well as the secular decline in outdoor advertising compared to online advertising means the net profit margin has not expanded as much as we expected.

Advertising remains weak and in secular decline. There are measures to mitigate this. SBUS has completed negotiations to roll out free Wi-Fi in 300 buses in February 2019. Most commuters have little resistance to watching short video ads before connecting to free wifi on a long commute.

On core operations, full profit contribution from the Bukit Merah package will come in Q1 2019, resulting in 13 straight quarters of net profit yoy growth. On the rail side, given the political ramifications of public transport fare hikes, it's unlikely that Downtown line will see breakeven in 2019. Current utilisation of 470,000 riders/day is still below the 600,000 break-even.

On the balance sheet, debt has halved to S$120mn and capex requirements have diminished. There remains about S$600mn of bus-related fixed assets that the regulator had committed to lease from SBUS as opposed to an outright purchase. This gives us a 6-year cash stream of S$100mn per year to the company.

While the recent market sell-off provided us many exciting opportunities, the risk-reward for this investment remains compelling.

Jardine Cycle and Carriage ("JCNC")

We discussed Jardine Cycle and Carriage ("JCNC") six months ago. Since then, the stock is up 15%, largely backed by the Indonesian market's recovery.

To recap, JCNC is a large market cap (~US$10bn) but poorly covered stock. In JCNC's conglomerate structure, Jakarta-listed Astra International remains its largest asset and earnings contributor. Astra's main business is in assembly and distribution of automotive vehicles (Toyota) and motorcycles (Honda). Astra's domestic market share fluctuates around 50-60%. Another 25% of Astra's earnings is from the heavy mining equipment company United Tractors whose stock recently underperformed due to weak coal prices. About 10-15% of JCNC's earnings comes from its legacy automotive dealership businesses (mainly Singapore) and 20% from the fast-growing Vietnamese market, mainly Truong Hai Auto (THACO).

JCNC also holds a 10% stake in Vietnam Dairy Products and 21% in Dai Quang Minh, a pure play developer in Thu Thiem District, the prime CBD district in Ho Chih Minh City. We believe that, over the next 3-5 years, as JCNC's investment in Vietnam bears fruit and earnings contribution from Vietnam increases, the market will decouple its stock price from Astra. Meanwhile, JCNC trades at 13x PE with a 3.1% dividend yield.

Aeon Thana Sinsap Thailand ("AEONTS")

AEONTS, a recent addition to our portfolio is one of the largest consumer finance companies in Thailand. Just over half its loan book comes from personal loans, 45% from credit cards, and the remainder 1 to 3% from hire purchase loans in its Indo-China subsidiaries. It is 63% owned by the AEON group of Japan. AEONTS has been operating in Thailand for 27 years and is a familiar brand name to most South East Asians.

About 70% of its clients come from outside Bangkok and are salaried income earners. Aeon offers Master/Visa/JCB and Co-branded Credit cards (such as with the hypermarket chain Big C) to borrowers with monthly salaries of over 15,000 Baht (US$473). It also offers member cards and personal loans for those earning less.

In terms of market share, AEONTS has about 25% of all personal loan accounts in Thailand and 12% by loan value. In credit cards, AEONTS has about 11% of all credit card accounts (8.4 MM) and 9% by balance value. The biggest change in the past few years, is the increase in mix from personal loans to credit cards as AEONTS grabbed market share in the credit card space. We anticipate continued growth in its credit card signups from the ex-Bangkok population.

The average yield on the book is about 18% for credit cards and 28% for personal loans. NPL is in line with industry average and hovers between 2 to 4% depending on the cycle.

The critical risk to this investment is the pace of interest rate hikes. Consumer finance companies lend at a regulated fixed rate but rely on wholesale funding where the cost fluctuates with the general direction of interest rates. About 65% of AEONTS funding is long term (mostly from the parent using USD or JPY and swapped into THB). Average funding cost is about 3.5% which leaves net interest margin hovering at the 20% level.

Notwithstanding the recent rate hike by the Bank of Thailand in Dec 2018, the inflation outlook remains low at ~ 1%. The low oil price this year will likely depress headline inflation figures. Also the relative stability of the Thai Baht relative to its peers has meant that the Bank of Thailand has had little reason to hike rates.

We are very positive on the continued growth of Thailand’s lower middle class. They will be the biggest beneficiaries from the Thai Eastern Economic Corridor. The recent bout of hot and cold trade tensions between the US and China continues to drive manufacturers including Chinese State Owned Enterprises to hunt for FDI opportunities in Thailand where there is an already well developed automotive and electronics export sector. AEONTS’ core customer group will ride on improving macroeconomics in Thailand.

AEONTS’ current market capitalisation is 1.2 Bn USD, trades at 11 x P/E , 2.7% Dividend yield.

Outlook

As we enter 2019, the investment climate is beset by worries over the US-China trade dispute and a synchronised global slowdown. With signs of economic slowdown and still relatively low inflation, the Fed has indicated a likely pause and greater patience in rate hike intentions having raised the Fed Funds rate 9 times since late-2015. The US yield curve has reverted to a gentle upslope in recent weeks with the 10-year yield back at 2.7% after briefly hitting a 7-year high of 3.24%. This could also mean a less strong dollar going forward taking some pressure off emerging markets currencies and interest rates.

The December rout in US stocks and Apple’s shock earnings warning citing weak China sales is a timely reminder of the significant linkages and interdependence between the world’s two largest economies. Perhaps this will increase the motivation for both countries to come to some deal by the Mar 30 deadline for trade negotiations to end.

With the MSCI Asia Ex Japan Index now 23.1% off the Jan 2018 high and trading at forward PE Ratio of 11.9x and 1.4x book value, we believe the market has priced in quite a bit of bad news. Among these, a much slower-than-expected growth in China's economy will be a key risk factor for the region. In recent weeks we have already seen the Chinese government roll out several measures to counteract the slowdown, including cutting banks' RRR, reduction in personal and corporate tax rates and a US$170bn injection of liquidity into the banking system. The government has many more levers it can pull to stave off a sharp deceleration and more measures can be expected over the coming months.

We remain positive on Asia's long-term prospects and will continue our strategy of identifying undervalued quality compounders and cash flow generators. With the sharp corrections across the region, this is an opportune time to be hunting for value for the long term.

Firm Update

Alexis Tran, who has been a member of the investment team since inception, left us in December to join her husband who has returned to Vietnam to manage his business. William Toh, a seasoned fund manager with twenty-five years of experience, will be coming on board end January to join the investment team. William was the founding member of New Harbour Capital Partners. He brings with him a wealth of experience and will increase the bench strength of our investment team.

Jeremy Wong our Head of Operations between 2013 to 2018 left us in December to pursue a new career opportunity. Replacing him is Heather Lu (CPA, Australia) who brings with her eight years of fund accounting experience from Orvent Asset Management Pte Ltd, Hawkesbury Capital Management and MIR Investment in Sydney Australia.

Paul Tan joined DCG in January as Business Development and Client Services Manager. Before joining DCG, Paul was Business Development Manager at New Harbour and Whitefield Capital Management from 2010 to 2014. Prior to joining the asset management industry, he worked at Citibank and BankBoston, in marketing, sales and operations.

Daniel Chan

Melvin Tan

TJ Tan

recommendation to purchase or sell such securities. Past performance is not an indication of future performance.