DCG Asia Value Fund

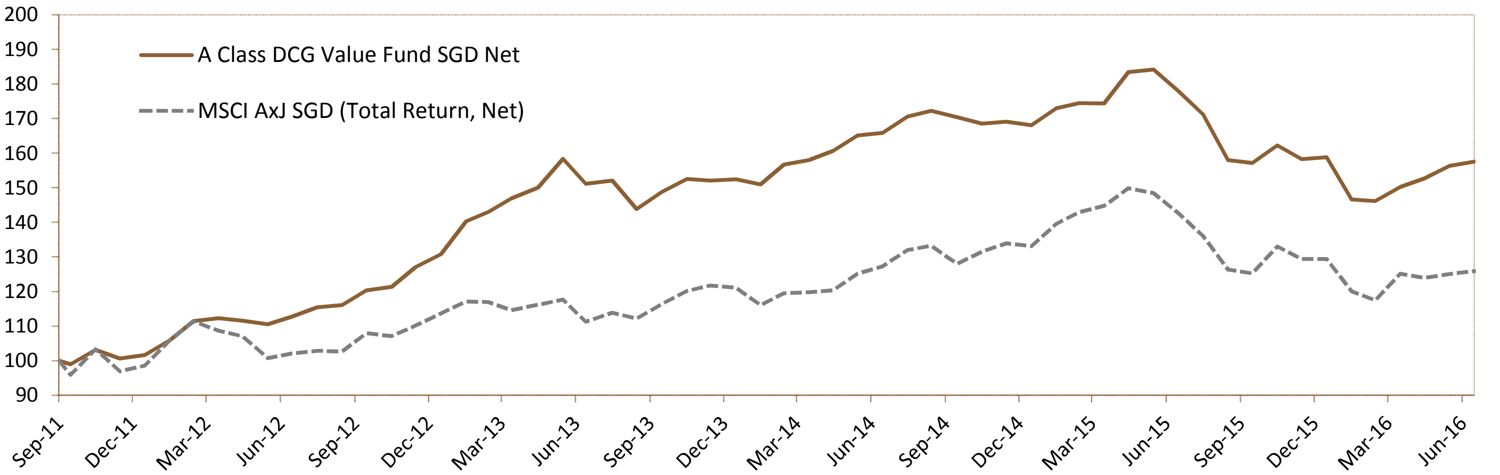
June 2016
NAV: SGD157.5 ('A' Class)

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	YTD	MSCI AxJ YTD
2016	-7.7%	-0.3%	2.8%	1.6%	2.4%	0.7%							-0.8%	
MSCI AxJ	-7.2%	-2.2%	6.5%	-1.0%	0.9%	0.6%								-2.7%
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)													57.5%	25.8%

*Current year returns are unaudited. Past performance is not indicative of future results. References to the MSCI AxJ SGD index are based upon published results net of fund expenses, management fees and incentive reallocation. The net return shows an accrual of incentive allocation every month, although the fee is charged at year end. Based on an original investor subject to stated fees (i.e. 1.25% management fee and 12.5% incentive fee).

(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)	The Fund	MSCI AxJ
Annualized Return	9.9%	4.9%
Standard Deviation	10.3%	12.2%
Sharpe Ratio	0.77x	0.24x
Sortino Ratio	1.30x	0.38x
Information Ratio	0.68x	N/A
Peak to Trough	-20.6%	N/A

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

Portfolio Concentration(4)	
No. of holdings	50
Top 10 holdings	29.8%
Top 20 holdings	50.6%

(4) Holdings include two short term bonds

Fund Exposure

Country Exposure	
HK/ China	38.4%
Singapore	17.6%
Indonesia	6.5%
Vietnam	6.1%
Thailand	5.2%
Sri Lanka	3.7%
Taiwan	3.0%
Korea	2.5%
Philippines	1.8%
Malaysia	1.3%
Cash	14.0%
Total	100.0%

Sector Exposure	
Financials	24.6%
Information Technology	16.2%
Consumer Discretionary	11.8%
Industrials	11.7%
Consumer Staples	11.1%
Energy	9.2%
Materials	1.1%
Telecommunication Servic	0.5%
Cash	14.0%
Total	100.0%

Fund Details

Size (equities)(5)	
Small Cap (<US$1b)	33
Mid Cap (US$1b-$5b)	4
Large Cap (>US$5b)	11
Total	48

(5) Median market capitalization US$552 mil

Top 5 Holdings

China Aviation Oil Singapore Corp
HTL International Holdings
Malee Group
Valuetronics Holdings
Tiga Pilar Sejahtera Food

Fund Information

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

Terms

Minimum Initial Investment	S$250,000
Minimum Subsequent Investment	S$100,000
Early Redemption Fee*	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
Management Fee / Performance Fee	1.25% / 12.5%

**Retained in the Fund for Fund investors*

Contact Information

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Important Notice

DCG Asia Value Fund

June 2016
NAV: USD90.9 ('A' Class)

Monthly Net Returns*

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	MSCI AXJ YTD
2016	-8.1%	0.9%	7.2%	1.9%	-0.3%	3.0%							4.1%	
MSCI AxJ(1)	-7.6%	-0.9%	11.2%	-0.9%	-1.3%	2.7%								2.2%
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)													-9.1%	-11.1%

*Current year returns are unaudited. Past performance is not indicative of future results. References to the MSCI AxJ index are based upon published results net of fund expenses, management fees and incentive reallocation. The net return shows an accrual of incentive allocation every month, although the fee is charged at year end. Based on an original investor subject to stated fees (i.e. 1.25% management fee and 12.5% incentive fee).

(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

Dear Investor,

Performance

For the June quarter, the NAV increased 4.8% against a 0.6% gain in the MSCI Asia ex-Japan Index (total return in S$) and, for the six months to June, dipped 0.9% vs the Index's 2.7% drop. This was due to strong performances by Kweichow Moutai, Valuetronics, Samsung Electronics, Malee Group, and China Aviation Oil.

The sturdy June quarter performance helped lift the Fund's NAV to $157.49/share, which is 11.6% below that for the year to June 2015. It is little comfort that this is barely above the 11.9% decline of the MSCI Asia ex-Japan Index – we're an absolute return fund and a negative double-digit return is extremely humbling. Since inception in September 2011, the Fund has returned 57.5% net of all fees, more than double the Index's 25.8% gain.

Excepting three relatively small markets (Indonesia, Vietnam and Philippines), all markets recorded losses for the 12 months ended June 2016. The worst declines were in Shanghai (-35%), Hong Kong (-17.5%) and Singapore (-11.2%). There were, of course, more detractors than winners for the year. Unsurprisingly, most losses were in China, Hong Kong, and Singapore stocks.

The top 10 detractors collectively contributed 7.35% to the portfolio's loss for the year. Of these, eight are HK/China stocks, one Singapore and one Philippines.

The biggest detractor was **SinoMedia Holding**, the Chinese media company acquired in 2015. Although its traditional media advertising was in decline, we had invested in its very strong balance sheet with a large cash reserve, and ownership of several floors of a prime Beijing office tower. Moreover, it was considered an attractive acquisition target which we estimated could be worth a lot more to an acquirer based on assets held. Indeed, the stock price was pushed up on talk of a possible sale of the company. In the end, nothing materialized and the share price subsequently collapsed. It is difficult to draw any useful lesson from this as our original investment thesis is arguably still valid. We have since sold our position, redeploying into other areas.

The next biggest detractor was **Changan Minsheng APLL Logistics ("CMAL")**. The company provides third party logistics services and supply chain management services to the booming China auto industry and has a captive client in its parent, Changan Automobile Group ("Changan Auto"). CMAL had established successful joint ventures with foreign automobile players including Ford, Suzuki, and Mazda. We were attracted by the cheap valuation with a price-to-earnings ratio ('PER') of 3.8x (ex-cash PER of 1.2x) and a price-to-book ratio ('PBR') of only 0.5x. Although topline growth had been good over the past five years, the bottomline hardly inclined due to higher labour costs and lack of pricing power leading to thin margins. With the share price fall, CMAL looks even more undervalued, trading on an ex-cash PER of 1.1x and 0.4x book.

Although the best growth days of China's auto industry are over, we still expect decent sales advances with Changan Auto and Ford among the top-selling models in the market.

The third largest detractor is a **New World Department Store**, a department store operator in China. The stock had been depressed by the steep slide in spending in department stores due to competition from online shopping and generally reduced consumer purchases. Again, balance sheet consideration drove the investment, given the real estate and net cash. There was also a possibility of the major shareholder privatizing the company which we estimated would need a significant premium to the share price then.

What lessons, if any, can we draw from our experience with these and other detractors in the Fund? As this is an annual letter, we try to explain the Fund's performance over the year. Investing, however, is a marathon – not a sprint, so to speak. In other words, it is a long-term game requiring patience as we have often reminded our investors. In the short term – a year or even three – anything can happen. Luck or misfortune can and does play a bigger role. Our philosophy is that fundamentals (earnings, cashflow, asset value, growth) will ultimately be reflected in the stock price but this can take some time. This is what Benjamin Graham, the father of value investing, meant when he said: "In the short run, the market is a voting machine but in the long run, it is a weighing machine."

Some investment theses can take quite some time to play out, while for others, one may deduce within a relatively shorter period whether or not the thesis is sound. Over short-time horizons, it is particularly difficult for a manager to determine, if he's made money, whether he was right for the right reasons (the thesis played out) or simply lucky (the wrong reason). Likewise, it is difficult to conclude definitively when we are wrong on a particular stock (i.e. lost money) – were we simply unlucky (i.e. the wrong reason) or was our analysis and investment thesis correct and sound but the market had yet to recognize its value.

It is important to distinguish between luck and skill. Unfortunately, it takes a long time before anyone can conclude that a manager's superior performance is due to skill and not luck.

Especially over shorter periods, it is very difficult to control outcomes for the reasons stated. This is why we choose to focus on process rather than outcomes as we wrote in our September 2012 letter:

" although the performance has exceeded our expectations, it is but a very short track record and we do not need to be reminded that investing is a marathon, not a sprint. In spite of our best intentions, there will be years when we will do quite well and times when we do less well. The important thing is to focus on the process rather than on the outcomes. By getting the process right, we believe the results will take care of themselves. However it is entirely possible that, even with a good process, bad outcomes may occasionally happen."

The following 2 by 2 matrix from James Montier's book on "Value Investing" illustrates this point:

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

"

What is within our control is the process of how we go about investing. At DCG, we constantly look for ways to improve and strengthen our process because a sound, robust process provides the best assurance for good outcomes in the long run.

Portfolio updates

Our regular readers will know that we've been concentrating the portfolio since 2014. Over the past 12 months we have reduced holdings from 55 to 48. We have moved to names with a higher level of conviction and away from those less likely to perform well in the now more challenging economic environment or where the investment case becomes less compelling.

We hold 6 Vietnamese and 3 Sri Lankan stocks which form about 10% of the Fund's NAV. In these smaller, less liquid markets, it is necessary to spread our investments among a larger number of names as it is not practical to build large positions without incurring significant transaction costs. If required to exit any position, we will incur substantial transaction costs if the position sizes are large.

The idea of investing in Vietnam and Sri Lanka is not new. We have been in Sri Lanka since March 2012 and Vietnam since October 2012. These investments have contributed meaningfully to the Fund's performance. For instance, in Vietnam, our investment in **Vietnam Dairy Products ("Vinamilk")** began in October 2012 when the stock was around VND 58,800 (adjusted for bonus shares). We have been gradually building up our investment in this stock and now, at VND 145,000, it is among our top 10 holdings. We wrote about Vinamilk several times so will not repeat the investment thesis. With a market capitalization of US$7.9 billion, the stock is now the biggest weight in the Vietnam market. Although it has re-rated significantly, we see a long growth runway and continue to hold this.

Another Vietnam name which we have added is **FPT Corporation ("FPT")**, the leading IT company in Vietnam. Since its establishment in 1988, FPT has grown its modest hardware trading and system integration business to a US$1.75 billion revenue corporation with four business segments: fixed-line broadband telecom service, software outsourcing and system integration, computer hardware and mobile phone distribution, and high school and tertiary education.

The telecom segment offers broadcast and online media services, personal broadband internet services, and leased line services for businesses/data centers, and contributes about 15% of FPT's revenue and 36% of pre-tax profit. In the past 15 years, FPT has moved from leasing to building and co-owning with the government broadband infrastructure including international internet connection, fiber optic assets and last-mile internet connection. Household broadband penetration in Vietnam is still a low 25% to 30% vs Asia Pacific's average 36%. Demand for corporate lease line and cloud services is expanding strongly, which will boost utilization of its fiber optic assets.

The software and system integration segment accounts for 24% of group sales and 31% of pre-tax profit. Software outsourcing posted a robust 42% revenue surge in FY2015, due to strong order flows from Japanese clients and big contract wins in new markets like USA and Bangladesh. Thriving demand from blue-chip corporates and commercial banks to implement ERP systems and strengthen

IT capabilities post-Trans-Pacific Partnership finalization in 2017 also boosts demand for FPT's system integration services.

Despite being the group's largest revenue contributor, FPT's distribution segment earns a much lower 2.8% pre-tax margin and contributes only a quarter of pre-tax profit. FPT has been looking to sell this business to focus energy and resources on its core IT and telecom businesses. The timing looks propitious and FPT can realize substantial value by selling its 252-store chain to a trade buyer. Following Vietnam's commitment to the World Trade Organization, foreign entities can own 100% of retail chain stores from 2017. As such, we saw more M&A deals in Vietnam recently, especially in the retail and consumer goods. Examples include Thailand's Central Group's recent purchase of a 49% stake in Nguyen Kim, a home appliance distributor, and AEON's 30% and 49% stakes in supermarket operators Fivimart and Citimart, respectively.

FPT Education has gained a good reputation after 15 years – 98% of FPT University's graduates find jobs on graduation. This business generates US$41 million revenue and makes about US$10 million a year. The annual intake has leapt to over 10,000 students with 100,000 targetted by 2020.

Despite FPT's vastly improved earnings quality over the past five years, as evidenced in the boom in high-margin, cash-generative businesses like software outsourcing and telecom services, the stock trades at cheap valuations with trailing PER of 9.6x, and PBR of 1.8x. We also like the company's flexible, creative, and growth-driven mindset. Middle and top management of each business division are well-educated, energetic, with many below 40 years of age.

Our investment team recently visited Colombo and came back enthused about the investment opportunities – former PM Lee Kuan Yew admired Sri Lanka when he visited in 1956. Enduring a 26-year war which ended in 2009, Sri Lanka is clearly on a recovery path with GDP per capita now at US$3,800. This former British colony inherited a good legal system with English as the main business language. Talent is ample and literacy is high. It is also easy to do business with limited foreign ownership restriction in most industries.

Sri Lanka sees Singapore as a successful role model to plot its growth strategy. Tourism is one sector holding great promise with currently only 1.8 million arrivals p.a. vs Singapore's 15.2 million. And, Sri Lanka has much more to offer – pristine beaches, national parks, wildlife, and a rich heritage.

Like Singapore, Colombo is blessed with deep water ports in a strategic location midway between Asia and Europe. The ports can play an important role as a regional transshipment hub serving South Asia, Europe, and East Asia. There are already plans to expand port-handling capacity with an upcoming tender for another deep water port facility.

One name we have invested in in Sri Lanka is **Hatton National Bank ("HNB")**. Founded in 1888 in the hill station of Hatton, HNB was established to service the banking needs of large tea plantation owners and workers.

Since the 1970s, HNB has acquired and consolidated the domestic operations of several foreign banks including Grindlays Bank, Mercantile Bank of India, Emirates Bank International, Banque Indosuez and Habib Bank. Today it has 249 branches and 400 ATM machines, the most among private sector banks.

From experience, the banking sector is usually a good proxy to invest in the advance of newly emerging economies. This is because loans growth usually outpaces GDP's, and net interest margins tend to be wider. Moreover, penetration of banking services in corporate and consumer segments is still very low.

HNB is Sri Lanka's fourth largest bank with a 10.9% market share. It is well capitalized with Tier 1 capital adequacy ratio of 13.5%, very profitable, efficiently-run, hitting a 17% return on equity. Over the last 10 years, its book value compounded at 20% p.a. With its long history and demonstrated resilience through the civil war years, we are confident that this will be a good long-term investment.

In Singapore, our investment in a special situation stock **HTL International ("HWA")** appears to be paying off. As a rule, special situations don't form a big part of our portfolio. We're sharing about HWA because special situation stocks have supported the portfolio's performance in the past two years and a spread of 6-7% still exists to the takeout price of S$1. Our HWA position was built at an average cost of S$0.76. At the time of writing, HWA trades at S$0.93, a PBR of 1.65x with net cash of S$0.09/share and the core operating business stabilizing and improving.

HWA is a high-end sofa manufacturer and distributor, selling under the HTL brand. Europe accounts for over-50% of sales, North America 15-25%, with Asia Pacific making up the rest. Production facilities are in the PRC with a corporate HQ in Singapore. HWA was founded in 1976 by the Phua brothers in Singapore and has been exporting to Germany since 1981. HWA has been listed since 1993. Like other small family-run businesses, HWA has faced ups and downs. Attempts to move into furniture retail in Germany (via the 2005 Domicil acquisition) haven't been as successful as the business owners would like. Operating conditions over 2010-15 were also extremely difficult. Besides dealing with the challenging and difficult German retail environment, the raw material cost (Brazilian leather hide) doubled, while freight rose with the oil price rally post-GFC. Unsurprisingly, the stock price collapsed from S$0.85 to S$0.22 during this period.

Around S$0.25, HWA came to our attention as a classic net-net that was slowly repurchasing stock (one of Charlie Munger's 'cannibal' companies). Corporate governance appears to be good and it was easy to ascertain a robust and real balance sheet. The problem with Asian net-nets is that they tend to stay that way unless a catalyst exists. Once it became clear that the Phua family were exiting the business and had found a credible buyer in the furniture industry, Guangdong Yi Hua Timber, now known as Yi Hua Lifestyle ("Yi Hua"), it was easier to commit time analyzing this idea.

The Phua family has given Yi Hua a 3-year post-acquisition profit guarantee (totalling US$82.75 million over 2016-19) that an uninformed outsider may view as aggressive, given the past 5 years of poor operating results. Indeed, the Shanghai bourse queried Yi Hua (listed on Shanghai Stock Exchange 600978:CH) on the valuation of the HWA deal. A careful review of Yi Hua's filings finds a realistic profit guarantee, given stabilization of Brazil leather hide prices to 2009-10 levels. Regulatory approvals have been obtained so we expect HWA's EGM to be called imminently.

Another addition to our Singapore portfolio is **Boustead Singapore ("Boustead")**. Boustead is an old pre-colonial company taken over in 1996 by Mr. Wong Fong Fui who has since grown it to annual revenue in excess of S$480 million.

Today Boustead has 3 businesses – Geo Spatial, Energy (including waste water treatment) and Real Estate Solutions.

Geo-spatial technology – Boustead has exclusive distribution rights for Esri in Australia, Singapore, Malaysia and Indonesia. GIS, Esri's geo-spatial software – the world's leading geographic information system, is widely used by over 13,000 organizations to plan, deploy, and manage key infrastructure and resources. Users of such software and services include defense organizations, utilities, transport, natural resources, flood management, institutes of learning, urban planning, and even search and rescue operations. GIS information reveals patterns, relationships, and trends facilitating in-depth analysis and strategic decision-making. This division brings in 25% of group earnings.

Energy (including waste water treatment) – Boustead International Heaters ("BIH") contributes about 70% of this segment. BIH is a specialist in designing and supplying process heater systems for the downstream oil & gas/petrochemical industries. It includes gas skids and burner management systems, waste heat recovery units, and associated heat transfer technology for the downstream. The other division is Boustead Controls & Electrics, which helps upstream and midstream O&G companies implement control systems and mission-critical safety shutdown systems.

Boustead Salcon Water Solution is a water & wastewater engineering specialist for the energy sector. Today, waste water treatment is a small contributor to the profitability of the energy sector.

Real Estate – This division focuses on industrial real estate solution. They help industrial clients design and plan to deliver custom-built industrial buildings in Singapore. In 2014, Boustead Spore spun off its real estate division (Boustead Projects) which owns and leases these industrial properties.

We like Boustead as it is cheap on a sum-of-the-parts basis. The industrial real estate business + net cash works out to around S$0.63/share. The current share price is S$0.80 which implies that the cash cow Geo spatial business trades at only 6.7x PER. At this valuation we get the Energy division free plus a free call option on its industrial REIT when it is spun off once its industrial asset size reaches S$700-800 million in a few years.

More recently, the stock took a beating, falling from a high S$1.94 to S$0.79 due to concern over weak energy segment earnings and Singapore's slowing industrial property sector. We saw this as a buying opportunity with the stock trading cheaply at a PER of about 12x and PBR of 1.2x. The book value includes their industrial real estate portfolio which is held at historical cost.

Mr. Wong has a good track record of compounding shareholder value, achieving per share book value growth of 15% p.a. over the last 10 years. This excludes dividends paid which adds another 2% to 5% return to shareholders.

Boustead has a rock-solid balance sheet with net cash of about S$147 million. Energy segment earnings may be close to bottoming, while those of real estate and geospatial should remain resilient over the long term.

Outlook

Markets appear to have gotten over the initial shock of the Brexit vote although the British Pound remains some 10% below pre-Brexit levels. While this unexpected development has further clouded the global economic outlook, it is unlikely to hugely impact Asia. The direct impact on our Fund is quite negligible. However, there will be some second order impact, given the Euro area's economic size and significance. Economists have reduced the Euro area's growth by 20 to 30 basis points.

An indirect result pertinent to our Fund is that the Chinese Yuan has depreciated some 1.5% since Brexit. Unlike last year, however, markets took it in their stride. Many pundits are now forecasting the Yuan to drop further to around RMB 7.00 to the US dollar, about 5% weaker from the current level.

Offsetting this negative impact is the likelihood of further prolonging the accommodative monetary stance of most central banks, particularly in Europe. This further supports equity prices.

On a relative basis, Brexit makes Asia look more attractive, especially considering the cheap valuations Asian markets trade at as well as Asia remaining a relatively fast-growth region, despite China's slowing. With markets likely to remain volatile, we are well-placed, with cash reserves, to take advantage of market setbacks to add to existing positions and deploy into new stock ideas which we have identified.

Update

Two housekeeping matters. First, DCG Capital has upgraded its licensing status with the MAS to a CMS licence earlier in the year. This means more work for our operations staff. Please remember to thank them, in particular Jeremy, when you meet them at the Annual Meeting.

Finally, the Annual Investors' meeting will be held on Tuesday, 18th October 2016, at 6.30pm. Please mark the date in your calendar (friends are invited too). The venue this year is at the NTUC Centre, One Marina Boulevard. Further details are attached.

Daniel Chan

Melvin Tan

Alexis Tran

TJ Tan

David Teoh

2016 DCG Annual Investors' meeting

18 October 2016, Tuesday, 6.30 pm

NTUC Centre

Level 7, Room 701 (take the glass lift at the lobby of NTUC Centre)

One Marina Boulevard (between OUE Bayfront @Collyer Quay and One Raffles Quay)

Singapore 018989

To attend, please email or call Ms. Diana Tung by Tuesday, 10 October 2016 -

Email: dianatung@dcginvest.com

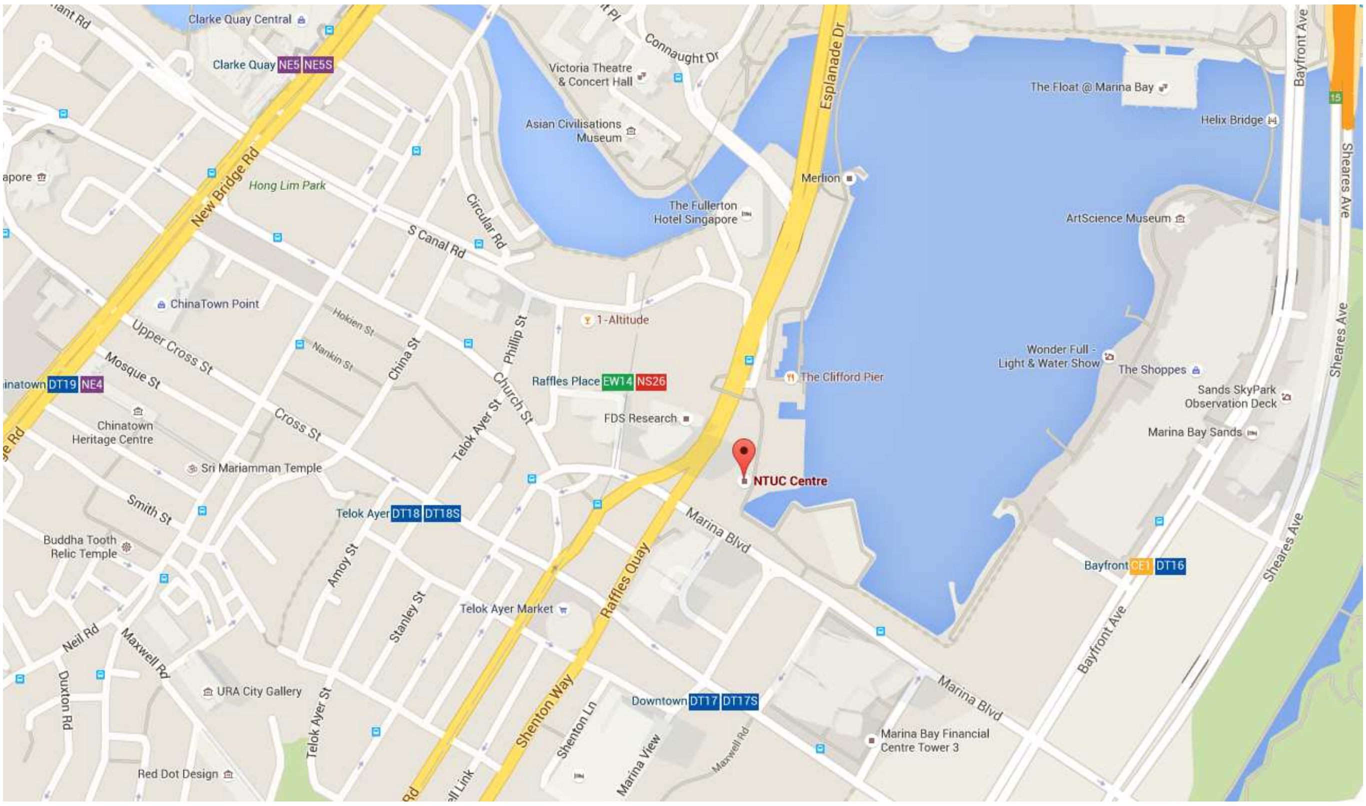
Phone: +65 6733 7270

How to get to NTUC Centre

MRT: Raffles Place MRT Exit C (Ocean Financial Centre)

Bus: OUE Bayfront @Collyer Quay, opposite Clifford Centre

(Service numbers: 10, 57, 70, 75, 100, 107, 128, 130, 131, 162, 167, 196, 700)



Map data: Google, Urban Redevelopment Authority