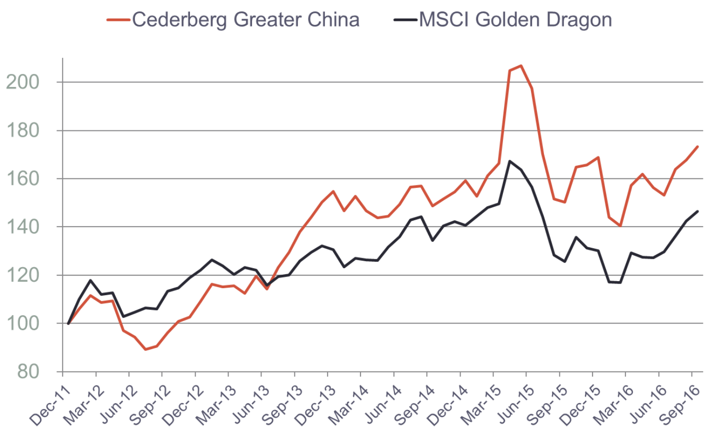
CEDERBERG CAPITAL

Q3 2016 LETTER

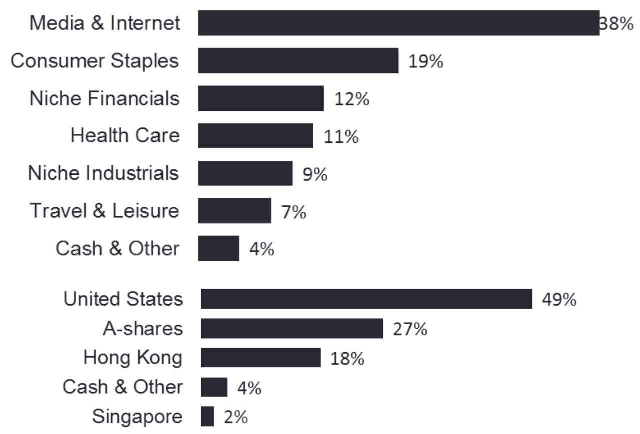
Performance Chart[1]



Performance Table[2]

Net Returns in US$	Cederberg	MSCI Golden Dragon	Peer group
Since inception	73%	47%	38%
Since inception annualised	12%	8%	7%
3 years annualised	8%	5%	4%
1 year	15%	17%	8%
3 months	13%	13%	8%
2016	3%	12%	2%
2015	6%	-7%	-4%
2014	3%	8%	3%
2013	42%	7%	10%
2012	9%	22%	18%

Exposure by Category[3] and Listing

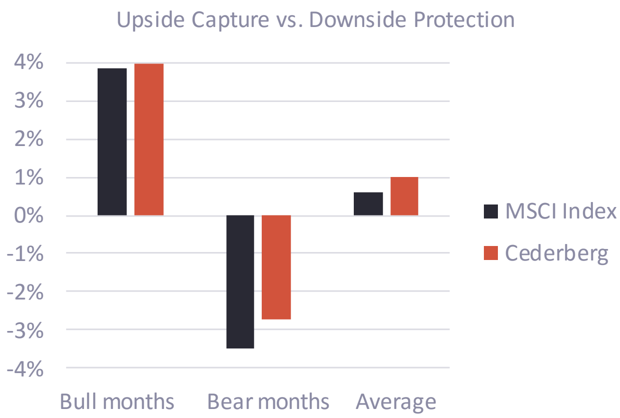


Top 10 Holdings in Alphabetical Order[4]

Stock	Industry
Autohome	Auto classifieds
Baidu	Online search
China Biologic Products	Blood plasma producer
Dong-E-E-Jiao	Traditional Chinese medicine
JD.com	Ecommerce
Kweichow Moutai	Distillers
Midea	Home appliances
NetEase	Online games
Noah	Asset management
Wuliangye Yibin	Distillers

Median Portfolio Characteristics[5]

Price/Earnings Ratio (2017)	15.8x	Fund Assets	$132m
EPS Growth (2016)	21%	Firm Assets	$173m
Yield	2.4%	Number of Holdings >3%	17
Return on Equity	23%	Top 10 Holdings	63%
Net Cash to Market Cap	-10%	Upside Capture[6]	103%
Market Cap	$2.6bn	Downside Capture[6]	78%



Key Features[7]

Fund	Cederberg Greater China Equity Fund
Strategy	Long-only absolute return equity
Legal status	Cayman mutual fund
Dealing	Monthly with 30 days notice
Initial minimum	US$100,000
Benchmark	MSCI Golden Dragon Index
Management fee	1.5% p.a.
Performance fee	20% of outperformance above MSCI Golden Dragon payable after 3 years if fund beats 6% p.a.
Custodian	Bank of America Merrill Lynch
Auditor	Deloitte
Administrator	Charter Group Admin
Cayman counsel	Maples & Calder
US & UK counsel	Schulte Roth & Zabel
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Special FX

Currency moves can have a significant impact on investors' returns. Over the past five years, local currency equity returns for the UK, Brazil and South Africa were 69%, 12% and 105% respectively vs. dollar returns of 40%, -36% and 20%.

We regularly get asked about the renminbi (or *yuan*, which is actually pronounced *yuen*). While we aren't currency experts (a decidedly complex field), we need to have a view since we run a dollar-denominated fund investing in Chinese assets.

1. Why has the renminbi been weak?

Contrary to popular opinion, the renminbi has been a strong currency for many years. While it has depreciated by 7% vs. the dollar over the past year, it has gained 18% over the past decade (a period of dollar strength). In fact, over this period the "redback" appreciated vs. 146 currencies and depreciated vs. 4. Recent weakness appears to be a deliberate rebalancing by the Chinese authorities in response to continued dollar strength, which had impacted China's export sector.

2. What about the next 10 years?

We expect the renminbi to be reasonably stable relative to a trade-weighted basket of currencies over the next 5-10 years (though what impact US monetary policy might have in the interim is an open question).

Firstly, the currency remains undervalued on most metrics including purchasing power parity (a good predictor of long term currency trends): the Big Mac Index currently implies a 45% undervaluation vs. the dollar. Furthermore, China enjoyed a record $600bn foreign trade surplus in 2015, indicative of a competitive export sector. While the degree of undervaluation is uncertain, it is hard to make a case that the renminbi is overvalued today.

Having said that, we do not anticipate much currency appreciation, as it would be inconsistent with China's stated aim of maintaining a stable currency. A gradual rebalancing via higher inflation in China vs. its trade counterparties is a more likely scenario.

3. What about the bear case?

The bears' arguments have centred around capital flowing out of China. There are sound reasons for these flows. Firstly, Chinese borrowers have been switching out of foreign currency debt into cheaper local currency debt. Secondly, Chinese corporates have been gobbling up assets abroad for strategic, commercial and diversification reasons. Thirdly, Chinese savers have (quite rationally) been diversifying their domestically-dominated portfolios. Finally, the unwinding of the carry trade may also have played a part. These flows are consistent with a gradual opening up of China's capital account and are unlikely to turn into a rout.

4. What is the SDR and why does it matter?

The International Monetary Fund has recently included the renminbi in its Special Drawing Rights ("SDR") basket of currencies, an important foreign exchange reserve tool for central banks. Its 11% weighting makes it the third largest of the five currencies in the basket. The renminbi's inclusion in the SDR highlights the currency's global importance and China's commitment towards a stable and transparent currency regime.

5. What would happen if the currency drops 10-20%?

This is highly unlikely as it would be wholly ineffectual (China's trade competitors would immediately follow suit) and inconsistent with the Chinese government's aims. But since you asked: since the bulk of our portfolio are domestically-oriented companies with RMB assets and cash flows (regardless of where their shares are listed), the dollar value of our portfolio would likely fall. However, in the long term it may well recover should portfolio companies' fundamentals improve as a result of a pickup in economic growth due to a more competitive currency.

6. How does the renminbi differ from other EM currencies?

Unlike many other EMs (e.g. India, Brazil, Russia, Indonesia and South Africa), China's currency has been structurally strong. The country is the world's largest creditor and its largest exporter. Significant infrastructure investment, manufacturing scale, a large and highly mobile labour force etc. have allowed the country to grow rapidly without blow-out inflation, which is very different to other EMs. We don't expect the situation to change soon.

In summary: investors investing outside of their home markets should consider not only the attractiveness of an investment opportunity in local currency terms, but also the attractiveness of that currency vs. their home currency. When we consider the Cederberg Greater China fund, **we are highly optimistic about our portfolio of world class companies trading at bargain prices, while expecting currency risk to remain modest.**

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Case Study: Noah's Ark

Private wealth management can be a wonderful business if it is done well. This is likely due to two things. Firstly, by doing a decent job of protecting and growing their clients' savings in a trustworthy manner, companies like Charles Schwab, Hargreaves Lansdowne and St James's Place have generated significant customer loyalty (client retention rates have been c. 95%). Secondly, the real value of their clients' portfolios have tended to go up over time, which has led to higher profitability. The result? Investors in Charles Schwab's IPO in 1987 who have kept their shares have made 120 times their money.

A year ago, the fund initiated a position in **Noah, China's leading wealth and asset management company.** Noah has distributed financial products to its high net worth individual ("HNWI") clients since 2005. In 2010, it started its own asset management business, thus boosting recurring revenues and profits. The company employs 1,093 relationship managers in 68 Chinese cities, has 115,000 registered clients, assets under management of $15bn, and has distributed investment products worth $50bn.

Having grown by 17% p.a. over the past five years, there are now over two million HNWIs (>$1mn in investable assets) in China. Over the same period, the country's assets under management grew 30% p.a. to $8trillion. Given the attractive outlook for wealth creation in China and still-low penetration rates, **rapid industry growth is likely to continue for many years to come.**

Noah is well-placed to benefit from this growth. Like other successful wealth managers, the company seems to be getting three key things right: putting their clients first; retaining top talent; and making risk management and compliance their lifeblood. In short: **what differentiates Noah from its peers is its culture**.

Where is the evidence, you may ask? Despite Noah's commission rates being significantly lower than its peers, its retention rate for top tier relationship managers is over 95%. Management own close to 50% of the business and have shown a willingness to accept short term pain in return for long term gain. Numerous Noah employees and competitors confirmed to us the company's unique culture, which can best be illustrated by some quotes from Madame Wang Jingbo, the company's formidable founder:

"We were awarded the Best Employer Award by 51Job" (China's LinkedIn equivalent)

"…our development is not a race; rather it's a high jump. How do we continuously improve upon ourselves? I'm more focused on our own pace and where we want to go in the next 5-10 years."

"We want to be the Blackstone of China."

Noah's quality shines through in its financials: its core return on invested capital is close to 100%, it has been profitable in each of the past nine years, and has grown profits every year bar one. Its quality can also be illustrated by the product partners it has attracted, many of whom subsequently became shareholders. For private equity in China, these include blue chip names as Sequioa, Greenwoods and Hillhouse, which in aggregate own c. 25%. Globally, it has partnered with the likes of TPG, Carlyle, Oaktree and KKR, a strong endorsement for Noah's distribution capabilities.

Noah is a high quality business with mid-teen growth potential (historically it has grown at over 30% p.a.), yet it is trading at 11x next year's normalised earnings. What might the market be missing? We believe Noah is currently being overlooked due to the following reasons:

1. *Lack of comparatives:* international investors treat it (unfairly) as an A-share market proxy
2. *Lack of coverage:* it has been covered by 3 analysts for less than a year.
3. *Profitability is temporarily obscured:* by investments in personnel, systems, offices and a new internet platform.

Day one investors in Charles Schwab saw their investments plunge by two-thirds within a month due to the Black Monday stock market meltdown. Likewise, an investment in Noah is unlikely to make for plain sailing. However, given the quality of its moat and management, and its healthy margin of safety, boarding Noah's ark now may turn out to be most rewarding later.

Corporate update

I am pleased to announce that Adeline Chong has joined us as an analyst following completion of her Master in Finance from London Business School, where she did the Value Investing Program under Eddie Ramsden. Adeline previously worked as a credit analyst at Lion Global Investors and Barclays. Welcome Adeline!

Final thoughts

I would like to thank our clients for your long term orientation, and my wonderful team at Cederberg for all their hard work.

Warm regards,

David Krige

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Regulatory information and risk warning

Disclosure

[1] Performance is for an investment made at the fund's inception; individual investors might experience different performance. MSCI Golden Dragon Total Return Index includes net dividends reinvested. Source: Charter Group Admin, Bloomberg, Cederberg.

[2] Peer group is Bloomberg universe of funds with Greater China geographical focus. Source: Bloomberg, Cederberg.

[3] Category definitions as per Cederberg.

[4] Source: Cederberg.

[5] Portfolio characteristics are quoted as of 7 October 2016. Source: Bloomberg, Cederberg.

[6] Upside Capture is calculated by dividing the fund's average NAV return during months in which the index had a positive return by the average index return during those months. Downside Capture is calculated by dividing the fund's average NAV return during months in which the index had a negative return by the average index return during those months.

As an illustration: During months in which the index was up, it returned +3.89% on average vs. Cederberg +3.98%; During months in which the index was down, it returned -3.48% on average vs. Cederberg -2.73%. Source: Bloomberg, Charter Group, Cederberg, 30 June 2016

[7] Source: Cederberg.

Sources for all other figures quoted in this letter are available upon request.

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