



## Cederberg Greater China Equities 31 August 2018

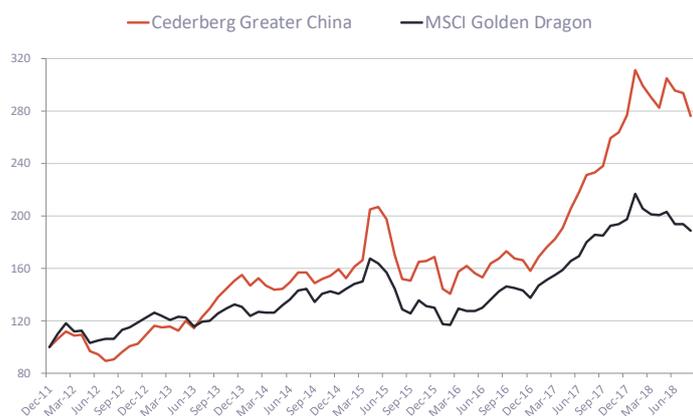
### Cederberg Capital

- **Greater China specialists** founded in 2011, majority staff-owned
- **Mission:** Run client money like we run our own
- **Unique perspective** from team in London & Shanghai
- **Research-driven process** focused on region's best companies

### Investment Principles

- **Moats** that are durable over our 4-year investment horizon
- **Management** that is excellent, honest and aligned with us
- **Margin of safety:** >100% upside to intrinsic value (at initiation)
- **High conviction portfolio** of long-term winners

### Performance Chart<sup>1</sup>

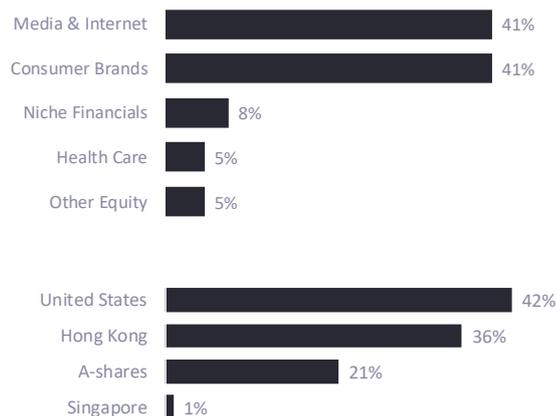


Past performance is not indicative of future results. Please see regulatory information on page 3. Source: Bloomberg, Charter Group, Cederberg. 31 Aug 2018

### Performance Table<sup>1</sup>

Net Returns in US\$	Fund	Index	Peer group	Percentile
<i>Annualised</i>				
Since Fund inception	16%	10%	9%	99
5 years	16%	9%	8%	99
3 years	22%	14%	6%	99
2017	75%	44%	36%	99
2016	-7%	5%	-5%	44
2015	6%	-7%	-5%	89
2014	3%	8%	3%	38
2013	42%	7%	10%	99
2012	9%	22%	18%	5
<i>Not annualised</i>				
Year-to-date	0%	-4%	-13%	98
3 months	-10%	-7%	-13%	71
1 month	-6%	-2%	-5%	34

### Portfolio Positioning<sup>2</sup>



### Major Holdings<sup>3</sup>

<b>Alibaba</b>	Ecommerce	<b>Midea Group</b>	Home appliances
<b>BJ Tong Ren Tang</b>	TCM	<b>Noah</b>	Asset management
<b>China Foods</b>	Bottler	<b>Tencent</b>	Social network
<b>JD.com</b>	Ecommerce	<b>Wuliangye</b>	Distillers
<b>Kweichow Moutai</b>	Distillers	<b>Yihai</b>	Condiments

### Median Portfolio Characteristics<sup>5</sup>

<b>P/E (2019e)</b>	19x	<b>ROE</b>	21%
<b>EV/EBIT (2019e)</b>	13x	<b>ROIC</b>	15%
<b>EPS growth (2019e)</b>	23%	<b>Market cap</b>	US\$21bn
<b>Net cash to equity</b>	45%	<b>Number of holdings</b>	18
<b>Dividend yield</b>	1%	<b>Top 10 holdings</b>	79%

### Risk Metrics<sup>4</sup>



### Fund Key Features<sup>6</sup>

<b>Strategy</b>	Long-only equity	<b>Auditor</b>	Deloitte
<b>Domiciles</b>	Cayman, Delaware	<b>Custodian</b>	Standard Chartered
<b>Fund assets</b>	US\$337mn	<b>Administrator</b>	Charter Group
<b>Firm assets</b>	US\$531mn	<b>Cayman counsel</b>	Maples & Calder
<b>Peer group</b>	Greater China Equity	<b>US &amp; UK counsel</b>	Schulte Roth & Zabel
<b>Benchmark</b>	MSCI Golden Dragon	<b>Phone</b>	+44 207 871 7228
<b>NAV</b>	276.051	<b>Email</b>	info@cederbergcap.com

For information on the fund's different share classes, please see p3

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### Eyes on the horizon

Since its peak, the fund has declined by more than 20%. This has been despite attractive valuations and strong fundamentals – the portfolio’s earnings are on track to grow by +23% this year. Instead, like mid-2012 and mid-2015, macro concerns have dominated markets: Turkey’s economic issues spilling over to other emerging markets; Donald Trump’s trade war; and monetary tightening in the US and in China.

Rather than anticipating Trump’s next move or how the market might respond to these issues, we’ve been doing what we always do: reading, thinking, and talking to industry experts and management. We’ve recently met several of our holdings after their mid-year results. Below we share some of the highlights.

### Beijing Tong Ren Tang Chinese Medicine



China’s leading TCM brand had a strong first half, with revenue and profit growing +22% and +19% respectively. Encouragingly, both volumes and pricing have contributed to revenue growth. In the future, there is scope for the company to expand its product portfolio significantly, by either enhancing or repackaging any of the hundreds of products that its parent company currently manufactures under the prized Tong Ren Tang brand. Brand-building activities ahead of next year’s 350-year anniversary should provide a further boon for near-term sales. Its shares are currently trading at 14x next year’s pre-tax earnings.

### Midea



Despite a tepid housing market, the world’s leading home appliance company had a strong first half with revenue expanding +15% and operating profits gaining +20%. While management acknowledged that weakening consumer confidence, trade wars and a high base represent near-term challenges, they are confident of meeting their full-year guidance of 15-20% growth. In fact, they have taken advantage of recent share price weakness to buy back - and cancel – shares worth more than USD500mn. With a dividend pay-out ratio above 40%, broad equity ownership, no relatives of the founder working for the company, and an impressive “wolf culture”, Midea remains one of the most shareholder-friendly Chinese corporates we’ve come across. It is currently trading at 11x next year’s pre-tax earnings.

### Noah



Amidst turbulent Chinese financial markets and more stringent regulation, China’s leading independent wealth manager grew its operating profit by +10% in the first half, slower than our expectations of high-teens growth for the full-year and beyond. Noah has been taking advantage of the tough industry conditions to grow its talent pool aggressively

(founder Madame Wang quotes Churchill: “Never let a good crisis go to waste”): it has increased its relationship managers by +19% yoy to 1,495. With 58% of its assets under management in private equity and venture capital and another 11% in real estate, Noah’s core business is far more stable than what gyrations in its share price would suggest. It is currently trading at 10x next year’s pre-tax earnings.

### Tencent



Tencent’s revenue grew +39% and operating profit +26% in the first half, however EBIT dropped -3% yoy in Q2, which spooked investors. Despite regulatory uncertainty, Tencent’s games Honor of Kings and Mobile PUBG remain China’s most popular games. Our analysis - and discussions with management last week - indicate that most of Tencent’s recent issues should prove to be transient. It remains one of the most long term-oriented companies in China if not the world, as it fiercely protects customer data and the overall user experience. As a result, the scope for monetising traffic - be it in content, games, financial services or social – remains immense. It is currently trading at 20x next year’s pre-tax earnings, though normalized for currently loss-making investments it is on a much lower multiple. The company recently engaged in share buybacks for the first time in four years.

### Wuliangye



Business momentum at China’s number two spirits brand remain strong, with revenue and profit growing +37% and +42% respectively in the first half. The new share incentive scheme is beginning to bear fruit, with an increased focus on costs, cash flows and growing volumes and prices aggressively. The company believes that growth of 20-25% p.a. is achievable for the next several years, given pent-up demand and the rapid growth of the premium market. We believe this is a realistic target, especially in light of Moutai’s price umbrella - its flagship product sells at a 40% premium to Wuliangye’s. It is currently trading at 9x next year’s pre-tax earnings.

### Conclusion

Current macro concerns have had a minimal impact on the fundamentals of our holdings, yet falling share prices have increased future return potential meaningfully. Historically, these types of environments have offered excellent entry-points for long-term investors: we are excited by the bargains currently on offer, whilst keeping our eyes firmly on the horizon. We thank you for doing the same.

Warm regards,

*David Krige*

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### Regulatory information and risk warning

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### Disclosure

<sup>1</sup> Past performance is not indicative of future performance. Investors whose reference currency differs from the US dollar may be subject to exchange rate movements that alter the value of their investments. MSCI Golden Dragon Total Return Index includes net dividends reinvested. Peer group is Bloomberg universe of equity funds with Greater China geographical focus. Source: Charter Group Admin, Bloomberg, Cederberg.

<sup>2</sup> Category definitions as per Cederberg. Source: Bloomberg, Cederberg

<sup>3</sup> Source: Cederberg

<sup>4</sup> 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.

<sup>5</sup> Median portfolio characteristics are quoted as of 4 September 2018. Source: Bloomberg, Cederberg.

<sup>6</sup> As of 31 August 2018. Source: Cederberg.

Investors should note investment involves risk. The price of units may go down as well as up and past performance is not indicative of future results. Investors should read the Fund’s Offering Memorandum for further details and risk factors, in particular those associated with investment in emerging markets. Information in this report has been obtained from sources believed to be reliable but Cederberg Capital does not guarantee the accuracy or completeness of the information provided by third parties.

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	Class A	Class B	Class C	Delaware LP - Class B
<b>Inception date</b>	1 Jan 2012	1 Jul 2018	1 Jul 2018	1 Feb 2018
<b>Status</b>	Closed	Open	Open	Open
<b>Min initial investment</b>	US\$100k	US\$100k	US\$100k	US\$1mn
<b>Subscription</b>	Monthly	Monthly	Monthly	Monthly
<b>Redemption notice</b>	30 days	90 days	90 days	180 days
<b>Redemption fee (payable to the Fund)</b>	3% if redemption within first 6m	5% if redemption first 3yrs, thereafter zero	N/A—3yr hard lockup	5% if redemption first 3yrs, thereafter zero
<b>Management fee</b>	1.50% p.a.	1.25% p.a.	0%	1.25% p.a.
<b>Performance fee</b>	20% of net alpha over MSCI Golden Dragon; payable after 3yrs if Fund generated >6% p.a. US\$	20% of net alpha over MSCI Golden Dragon; payable after 3yrs if fund generated >6% p.a. US\$	25% of returns over 6% p.a. US\$ hard hurdle; payable after 3yrs	20% of returns over 8% p.a. US\$ hard hurdle; payable annually
<b>High water mark</b>	Yes	Yes	Yes	Yes
<b>Investor level gates (max redemption per investor)</b>	N/A	25% per quarter	25% per quarter	N/A
<b>ISIN</b>	KYG2030A1004	KYG2030A1186	KYG2030A1269	N/A
<b>Sedol</b>	BMM1R81	BFZYW5	BD31D23	N/A