CEDERBERG CAPITAL

Cederberg Greater China Equities 31 December 2018

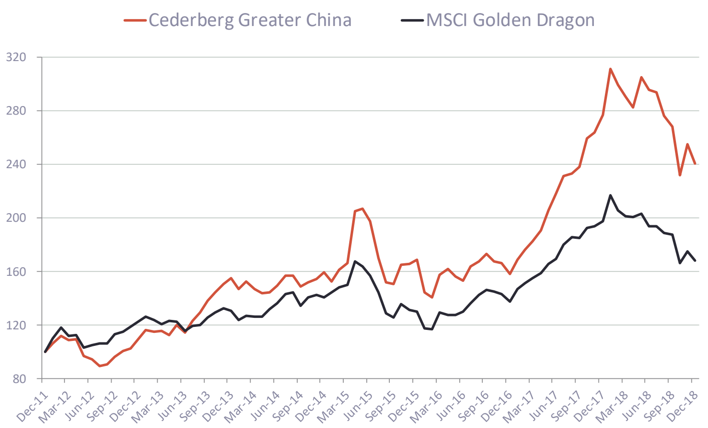
Cederberg Capital

- **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[1]

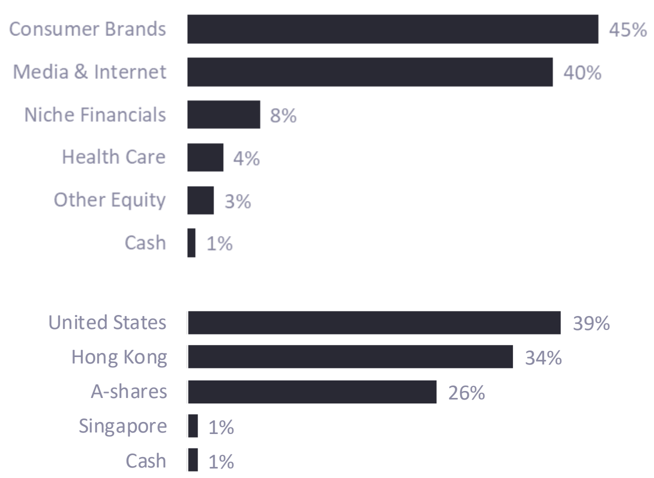


Past performance is not indicative of future results. Please see regulatory information on page 3. Source: Bloomberg, Charter Group, Cederberg. 31 Dec 2018

Performance Table[1]

Net Returns in US$	Fund	Index	Peer group	Percentile
Annualised				
Since Fund inception	13%	8%	7%	100
5 years	9%	5%	3%	99
3 years	13%	9%	0%	99
2018	-13%	-15%	-23%	90
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
Not annualised				
3 months	-10%	-10%	-12%	72
1 month	-6%	-4%	-4%	11

Portfolio Positioning[2]



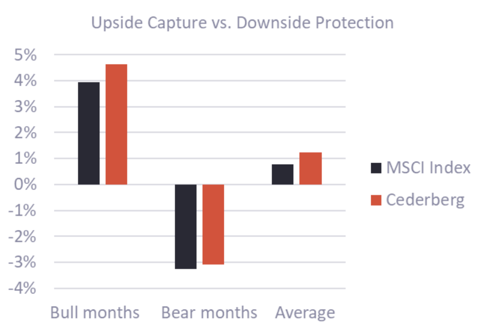
Major Holdings[2]

Alibaba	Ecommerce	**Netease**	Online gaming
JD.com	Ecommerce	**Noah**	Asset management
Jiangsu Yanghe	Distillers	**Tencent**	Social network
Kweichow Moutai	Distillers	**Wuliangye**	Distillers
Midea Group	Home appliances	**Yihai**	Condiments

Median Portfolio Characteristics[4]

P/E (2019e)	19x	**ROE**	22%
EV/EBIT (2019e)	12x	**ROIC**	14%
EPS growth (2019e)	20%	**Market cap**	US$20bn
Net cash to equity	49%	**Number of holdings**	17
Dividend yield	2%	**Top 10 holdings**	82%

Risk Metrics[3]



Fund Key Features[5]

Strategy	Long-only equity	**Auditor**	PWC
Domiciles	Cayman, Delaware	**Custodian**	Standard Chartered
Fund assets	US$342mn	**Administrator**	Charter Group
Firm assets	US$718mn	**Cayman counsel**	Maples & Calder
Peer group	Greater China Equity	**US & UK counsel**	Schulte Roth & Zabel
Benchmark	MSCI Golden Dragon	**Phone**	+44 207 871 7228
NAV	240.415	**Email**	info@cederbergcap.com

Please note: All performance figures on this page refer to Class A shares, please see page 3 for information on the fund's different share classes.

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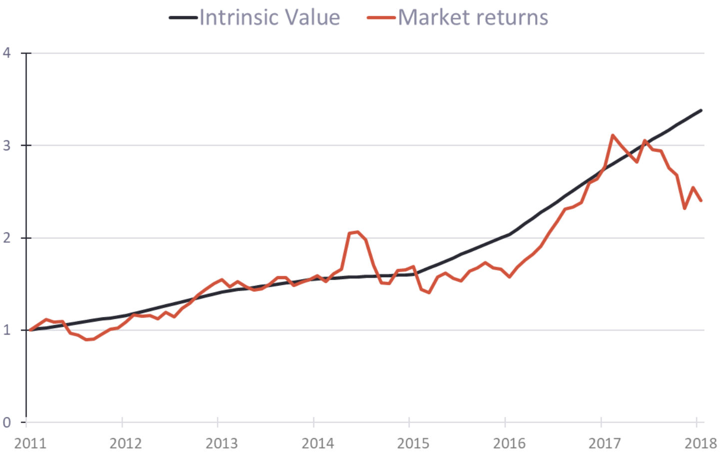
Who let the dogs out?

The Year of the Dog lived up to its name, with Global, US and Emerging Market equities returning -10%, -4% and -17% respectively (all returns USD). Chinese equities were not immune to the widespread sell-off: the Cederberg Greater China Equity Fund declined -13% (Class A, net of fees), slightly ahead of the MSCI Golden Dragon Index's -15% return.

While these types of returns can be painful, at Cederberg we try not to read too much into short term share price fluctuations. Instead, we adopt a **business owner mindset** to the companies in which we invest. Hence we are much more interested in studying their operating and financial performance, as well as their long term outlook, just as any business owner would do.

Central to our analysis is assessing changes in the intrinsic value of our companies: how has their ability to generate free cash flow far into the future changed?

The chart below depicts our estimate of the change in the portfolio's intrinsic value vs. the fund's share price returns. We estimate the increase in the portfolio's intrinsic value by adding the weighted average growth in holdings' operating income per share to the portfolio's dividend yield. While this is an approximation, we believe that - in aggregate - it offers a good reflection of changes in the portfolio's underlying fundamentals. Last year, the portfolio's intrinsic value gained +23%, with +22% coming from operating income growth and +1% from dividend yield.



Source: Bloomberg, Cederberg Capital

Though stock market returns and changes in the portfolio's intrinsic value are unlikely to be identical in any year, we expect these two series to converge in the long run. As such, last year's divergence is likely to bode well for the fund's future returns. Moreover, we expect our companies to continue to grow their intrinsic values handsomely over time.

But what about China's debt, trade wars and slowing GDP growth? While these issues will intermittently influence share prices, they are unlikely to detract meaningfully from the intrinsic value of our portfolio of cashed-up, consumption-driven leaders. We remain bullish due to our holdings' attractive valuations, their potential for rapid growth, and due to misunderstandings and inefficiencies in Chinese equity markets in general.

1. Attractive valuations

While Chinese equity indices are currently on modest multiples, we don't think this is a particularly useful way to assess the investment opportunity set due to the prevalence of state-owned enterprises (SOEs), which in most instances deserve to trade at a discount. Instead, we find it instructive to consider the valuations and growth potential of high-quality Chinese companies in absolute terms and relative to their Western peers. On this basis, we view valuations to be highly attractive.

Take beverages for example: market-leading brands **Kweichow Moutai, Wuliangye** and **Jiangsu Yanghe** are centuries-old and enjoy household familiarity. Yet they trade at a mere 7-12x this year's pre-tax earnings, compared to Diageo on 18x. Might lower profitability and/or growth potential explain the Chinese companies' valuation discounts? On the contrary: all three are highly profitable, and their earnings are forecasted to grow c. 20% p.a. over the next two years, i.e. three times that of Diageo's.

Similarly, ecommerce players **Alibaba** and **JD.com** are both growing faster than Amazon while trading at a fraction of the American company's price to gross merchandise value (the value of goods sold on an ecommerce platform). And in financial services, **Noah**, the Chinese wealth and asset manager, is expected to grow its earnings at more than 20% p.a. over the next two years, double that of the UK's Hargreaves Lansdown. Yet Noah is trading on 16x this year's earnings vs. Hargreaves on 33x. On a pre-tax earnings basis, its valuation discount is even more enticing.

2. Rapid growth potential

"There are 300 million [people in China's] middle class. In the next 10 to 15 years, that number will double to 600 million. That number is not going to stop, trade war or no trade war. Any kind of short-term economic effects, we believe, will be cyclical." Joe Tsai, Alibaba vice-chairman, Nov 2018

China is set to enjoy strong consumption growth over the next decade and beyond. This is due to several factors. Firstly, the government is intent on supporting consumption through policies such as urbanisation, increased social security and tax reforms. Secondly, rapid wage growth will boost the size and the spending power of the middle class. Thirdly, young people – who have embraced consumerism – will play a more important role.

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Fourthly, technology: why save when you can buy something nice at the click of a button? Lastly, easier access to consumer credit.

Notwithstanding their attractive valuations, our companies will all benefit from consumption tailwinds, in addition to other company-specific growth drivers. Our bottom-up research indicate that mid-teens growth in intrinsic value is feasible for 2019 and beyond.

Top 10 Holdings	2018E Operating Income Per Share Growth*	4-Year Operating Income Per Share Growth*
Alibaba**	-7%	23%
JD.com	23%	35%
Jiangsu Yanghe	24%	16%
Kweichow Moutai	27%	23%
Midea Group	15%	17%
Netease	-34%	13%
Noah	17%	13%
Tencent	19%	36%
Wuliangye Yibin	40%	24%
Yihai	45%	N/A
Median	**21%**	**23%**

Source: Bloomberg

** Annualized GAAP operating income per share growth in 2018 and 2014-2018, except for JD (sales per share due to its close-to-breakeven current profitability).*

*** Alibaba's non-GAAP operating income grew at a double digit rate in 2018.*

3. China is a stock-picker's heaven

Sometimes we have to pinch ourselves that we get to do what we do: invest in an asset class with wonderful companies that are often mispriced. The Chinese market's inefficiencies stem from three things. Firstly, a lack of research: **there are seven times as many research analysts covering the typical US-listed company vs. the typical Greater China-listed company**, and there are four times as many funds focusing on US equities than on China. Secondly, the behaviour of Chinese retail "investors": responsible for over 70% of the daily turnover in A-shares, they drive share prices based on tips, whims and superstitions. Thirdly, a lack of patient capital: holding periods among local investors can be measured in weeks rather than in years. All of this means that there is more scope for active investors such as ourselves to add value.

	United States	Greater China
Companies > USD100mn market cap	5,184	5,751
Median market cap (USDmn)	923	614
Median analyst coverage	7	1
Funds	5,727	1,250

Source: Bloomberg, Cederberg Capital

Conclusion

*"You are absolutely right that American investors are missing China, and they are missing it because it's a long way away, it looks different, they are not used to it. It's complicated, the headlines confuse them… **It's where US investors should be looking**." – Charlie Munger, Berkshire Hathaway vice-chairman, May 2018*

We totally agree with Charlie: **China is misunderstood, massively under-owned by global investors, and attractively priced**. The fund's class B and class C shares are currently open to existing and to new investors. Please contact us should you wish to discuss.

To our clients: thank you for keeping your eyes on the horizon.
To the Cederberg team: thank you for your wonderful work.

Wishing you and your loved ones a happy, healthy and prosperous Year of the Pig!

David Krige

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Regulatory information and risk warning

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Disclosure

[1] 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.

[2] Category definitions as per Cederberg. Source: Bloomberg, Cederberg

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

[4] Median portfolio characteristics are quoted as of 04 January 2019. Source: Bloomberg, Cederberg.

[5] Data as of 31 December 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	Delaware LP - Class C
Inception date	1 Jan 2012	1 Jul 2018	1 Jul 2018	1 Jul 2018	1 Jul 2018
Status	Closed	Open	Open	Open	Open
Min initial investment	US$100k	US$100k	US$100k	US$1mn	US$1mn
Subscription	Monthly	Monthly	Monthly	Monthly	Monthly
Redemption notice	30 days	90 days	90 days	180 days	180 days
Redemption fee (payable to the Fund)	3% if redemption within first 6m	5% if redemption first 3yrs, thereafter zero	N/A—3yr hard lockup	5% if redemption first 3yrs, thereafter zero	N/A—3yr hard lockup
Management fee	1.50% p.a.	1.25% p.a.	0%	1.25% p.a.	0%
Performance fee	20% of net alpha over MSCI Golden Dragon; payable after 3yrs if Fund generated >6% p.a. US$	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	25% of returns over 6% p.a. US$ hard hurdle; payable annually
High water mark	Yes	Yes	Yes	Yes	Yes
Investor level gates (max redemption per investor)	N/A	25% per quarter	25% per quarter	N/A	N/A
ISIN	KYG2030A1004	KYG2030A1186	KYG2030A1269	N/A	N/A
Sedol	BMM1R81	BFYZYW5	BD31D23	N/A	N/A