

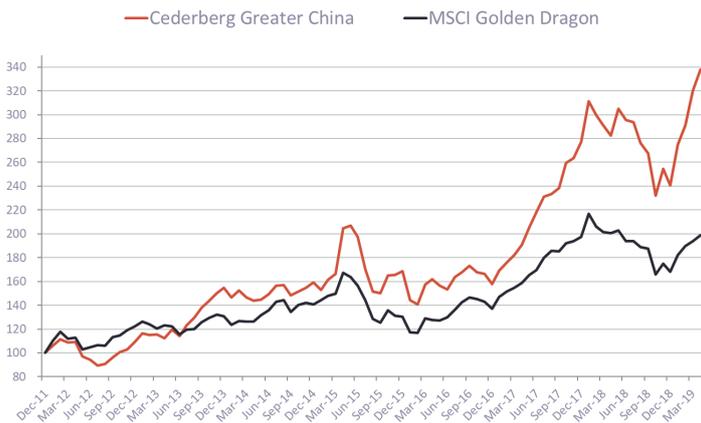
CEDERBERG CAPITAL

Cederberg Greater China Equities 30 April 2019

An introduction to Cederberg

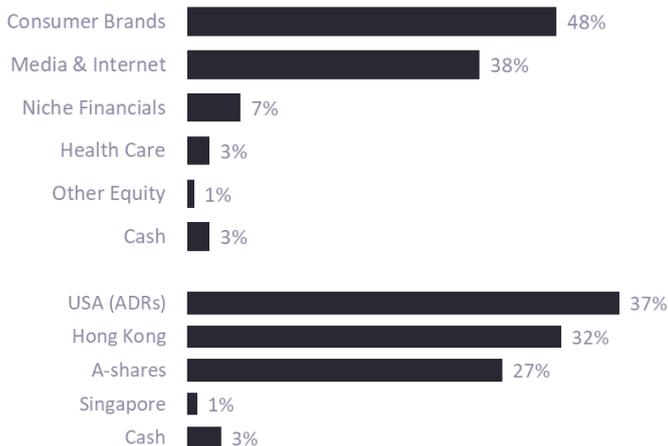
- Greater China specialists founded in 2011, majority staff-owned
- Mission: Run client money like we run our own
- Unique perspective from team in London & Shanghai
- Research-driven process focused on the region's best companies
- In every investment, we look for a durable Moat, excellent Management, and a large Margin of Safety
- We manage a high conviction portfolio of long-term winners, with low portfolio turnover

Performance chart¹

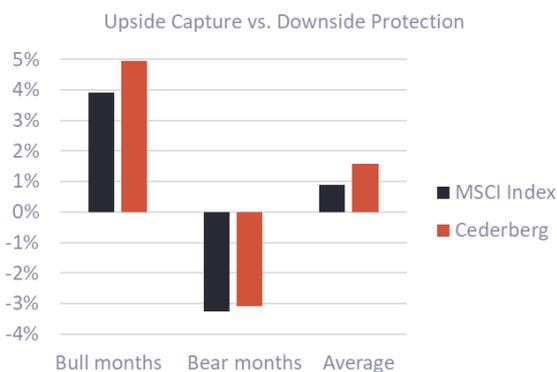


For Class A shares. All figures in US\$ net of fees. MSCI Golden Dragon Index includes net dividends. Past performance is not indicative of future results - please see regulatory information on p3. Source: Bloomberg, Charter Group. 30 April 2019

Portfolio positioning²



Risk³



Why Cederberg might not be right for you

- Our products are considered very risky; given our long-term focus and comfort with being different, **we are not for most investors**
- Chinese equities are highly volatile: declines of 70% are not uncommon
- Cederberg's returns have been more volatile than those of the index
- We manage a concentrated portfolio that typically differs substantially from those of our peers and from the market
- Our past returns are unlikely to be repeated in the long run
- Our strategy is only suitable for clients who invest for at least 10 years

Performance table¹

Net Returns in US\$	Class A	Index	Peer group	Percentile
<i>Annualised</i>				
Since inception (1/1/2012)	18%	10%	8%	100
5 years	19%	10%	8%	99
3 years	28%	16%	10%	100
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
<i>Not annualised</i>				
Year to date	41%	18%	23%	95
3 months	23%	9%	15%	82
1 month	6%	2%	1%	98

Major holdings²

Alibaba	Ecommerce	Netease	Online games
JD.com	Ecommerce	Noah	Asset management
Jiangsu Yanghe	Distillers	Tencent	Social network
Kweichow Moutai	Distillers	Wuliangye	Distillers
Naspers	Media	Yihai	Condiments

Median portfolio characteristics⁴

P/E (2019e)	23x	ROE	23%
EV/EBIT (2019e)	15x	ROIC	15%
EPS growth (2019e)	22%	Market cap	US\$31bn
Net cash to equity	52%	Number of holdings	16
Dividend yield	1%	Top 10 holdings	82%

Key features⁵

Strategy	Long-only equity	Auditor	PwC
Domiciles	Cayman, Delaware	Custodian	Standard Chartered
Fund assets	US\$564mn	Administrator	Charter Group
Firm assets	US\$1.3bn	Cayman counsel	Maples & Calder
Peer group	Greater China Equity	US & UK counsel	Schulte Roth & Zabel
Benchmark	MSCI Golden Dragon	NAV - Class A	338.03
Expenses	14 bps (2018)	NAV - Class B	114.47
Turnover	14% (2018)	NAV - Class C	115.28
Email	info@cederbergcap.com	Phone	+44 207 871 7228

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The six most important words in investing

Investment wisdom can be found in all sorts of places, even in – shock horror – academic journals. A recent study by Professor Hendrik Bessembinder of Arizona State University on one of the most comprehensive US stock market databases concluded the following:

*Most common stocks that have appeared in the Center for Research in Security Prices (CRSP) database from 1926-2016 have lifetime buy-and-hold returns less than one-month Treasuries. When stated in terms of lifetime dollar wealth creation, the **best-performing 4% of listed companies explain the net gain for the entire US stock market since 1926**, as other stocks collectively matched Treasury bills. These results highlight the important role of positive skewness in the distribution of individual stock returns.*

The study contains several conclusions that are worth mulling over:

1. Equities have generated attractive long-term performance because large profits from a few stocks (1,092 out of 25,332 i.e. 4%) offset the modest or negative returns from the other 96%. As such, equity returns follow a similar distribution to those of venture capital.
2. Fewer than three out of every seven US stocks have a lifetime return that exceeds one-month T-bills' return (!) over the same period.
3. More than half of US stocks have delivered negative lifetime returns, and this percentage has been increasing since the 1980's as more companies with low profitability (and low survival rates) have listed.
4. The performance from active stock selection can be huge IF the investor selects a concentrated portfolio containing stocks that go on to earn extreme positive returns.

These results are consistent with our own experience at Cederberg. A recent *post-mortem* on the fund's performance since inception confirmed that a handful of big winners (**Kweichow Moutai, Yihai, Wuliangye, Clear Media, NetEase**) have generated most of the returns. Whenever we (the royal we!) have interrupted the compounding process – either by selling out of winners, trimming them or diluting them due to inflows – it has often been very costly to our clients. Why on earth have we done this, and what makes it so hard to run winners?

Firstly, most professional investors must adhere to concentration limits – in Cederberg's case, a holding can't exceed 20% of the fund's net asset value. This has forced us to trim positions in the past. Which begs the question: should the limit be increased? Perhaps a topic for a separate discussion.

Secondly, our valuation discipline means that we don't want to own any company that exceeds our estimate of its intrinsic value. Sometimes the market rapidly rerates a name, which has led us to sell out of names such as Hutchison China Meditech and Ctrip.

Has this been a smart thing to do, especially with high growth companies where the range of outcomes can be wide? Not an easy question. An even harder question is what to do with inflows: owning a name that is trading at 90c in the dollar is one thing, but buying more of it? We look forward to the day when the strategy will be closed to new inflows and we no longer need to make that tough call!

Thirdly, it is psychologically very hard for most people to hold on to winners because the temptation to take profits is so big. The saying "you never go broke taking a profit" is revealing about human nature. But as Prof Bessembinder's study demonstrates, investors do so at their peril. Perhaps a more apt expression would be "you are unlikely to get rich by taking a profit". Hopefully, hard-earned experience will help us to discern when we need to hold, and when the time has come to fold.

In summary, we agree with Prof Bessembinder's findings: merely avoiding losers is not enough; investors must focus on identifying winners - even if the odds are stacked against them – and then hold on to them. The six most important words in investing? **Pick winners, then let them run.**

Warm regards,

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 show the fund’s average return vs. the index’s average return for those months in which the index had a positive return. Downside Capture shows the fund’s average return vs. the index’s average return for those months in which the index had a negative return. Source: Bloomberg, Cederberg

⁴ Median portfolio characteristics are quoted as of 3 May 2019. Source: Bloomberg, Cederberg.

⁵ Data as of 30 April 2019. Expenses include all fund level expenses excluding investment management fees divided by the fund’s average AUM in 2018. Portfolio turnover is for 2018 and is calculated as the lower of all buy and sell transactions divided by fund’s average AUM. 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 (closed for new subscriptions)	Class B	Class C	Delaware LP - Class B	Delaware LP - Class C
Inception date	1 Jan 2012	1 Jul 2018	1 Jul 2018	1 Aug 2018	1 Aug 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 if Fund generated >6% p.a. US\$ returns; payable for the first time in Jan 2015 and annually thereafter	20% of net alpha over MSCI Golden Dragon if Fund generated >6% p.a. US\$ returns; payable for the first time in Jan 2022 and annually thereafter	25% of returns over 6% p.a. US\$ hard hurdle; payable for the first time in Jan 2022 and annually thereafter	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	BFZYW5	BD31D23	N/A	N/A