

CEDERBERG CAPITAL

Cederberg Greater China Equities 31 January 2020

An introduction to Cederberg

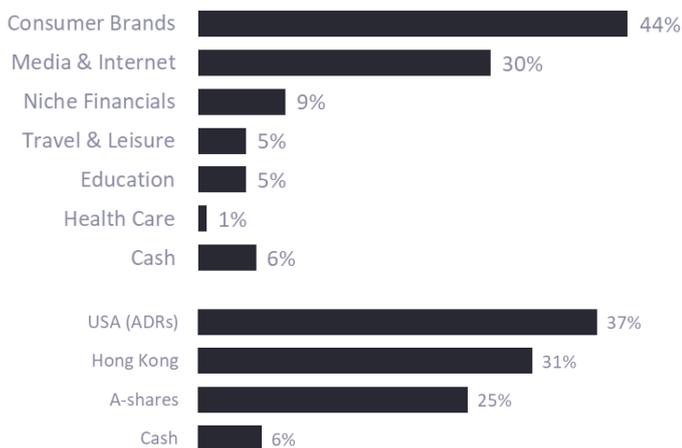
- Greater China specialists founded in 2011, majority staff-owned
- Mission: Run client money like we run our own
- Unique perspective from team in London & Shanghai
- Research-driven process focused on the region's best companies
- In every investment, we look for a durable Moat, excellent Management,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

Performance chart¹

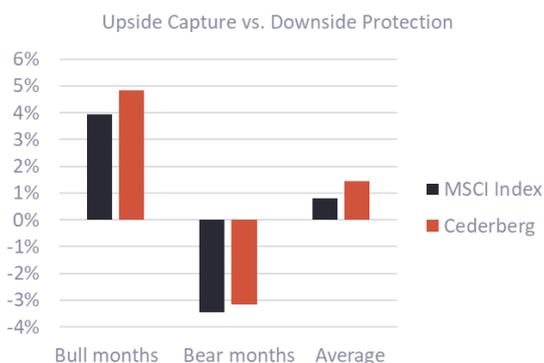


Class A shares. All figures in US\$ net of fees. MSCI Golden Dragon Index includes net dividends. Past performance is not indicative of future results - please see regulatory information on p3. Source: Bloomberg, Charter Group. 31 Jan 2020

Portfolio positioning²



Risk³



Why Cederberg is not for everyone

- 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
- Our returns have been more volatile than those of the index
- We run a concentrated portfolio and we don't look like the index or our peers
- **Our past returns are unlikely to be repeated in the long run**
- **We are only suitable for those with an investment horizon >10 years**

Performance table¹

Net Returns in US\$	Class A	Index	Peer group	Percentile
Since inception (1/1/2012)	16%	9%	8%	100
5 years	17%	7%	5%	99
3 years	27%	11%	9%	100
2019	50%	24%	32%	86
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

Year to date	-5%	-5%	-1%	22
3 months	0%	4%	5%	7
1 month	-5%	-5%	-1%	22

Major holdings²

Alibaba	Ecommerce	NetEase	Online gaming
Haidilao	Restaurants	New Oriental	Education
Huazhu Group	Hotels	Tencent	Social network
Kweichow Moutai	Distillers	Wuliangye	Distillers
LexinFintech	Consumer finance	Yihai	Condiments

Median portfolio characteristics⁴

P/E (2020e)	22x	ROE	25%
EV/EBIT (2020e)	17x	ROIC	17%
EPS growth (2020e)	21%	Market cap	US\$22bn
Net cash to equity	52%	Number of holdings	16
Dividend yield	2%	Top 10 holdings	80%

Key features⁵

Strategy	Long-only equity	Auditor	PwC
Domiciles	Cayman, Delaware	Custodian	Standard Chartered
Fund assets	US\$948mn	Administrator	Charter Group
Firm assets	US\$2bn	Cayman counsel	Maples & Calder
Peer group	Greater China Equity	US & UK counsel	Schulte Roth & Zabel
Benchmark	MSCI Golden Dragon	NAV - Class A	341.50
Expenses	14 bps (2018)	NAV - Class B	115.90
Turnover	15% (2019)	NAV - Class C	118.65
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VIRAL VOLATILITY

The novel coronavirus has led to hundreds of deaths and thousands of infections. What does it mean for Cederberg and its clients, and what conclusions can we draw from developments thus far?

First of all, while tragic, the loss of life has been limited thus far, with fewer than a thousand casualties to date. By contrast, the flu led to the deaths of an estimated 61,000 Americans in 2018. It has also mostly been a local phenomenon: at the time of writing, all but two deaths have occurred in China, and most of those have been in a single province, Hubei. Thankfully, all Cederberg staff are healthy and safe right now. Our hearts go out to the people who have been affected.

What about the impact on China's economy? This is likely to be sharp but short-lived. Many businesses are currently closed or asking staff to work from home, and most Chinese people are not going outside other than for occasional trips to buy provisions such as food, medicine and face masks. In a couple of months, everything should be back to normal as the virus is likely to be contained, its impact dissipates due to warmer weather, or a vaccine is created. This scenario would be consistent with the trend of previous epidemics, such as SARS in 2003.

What about the impact on Cederberg's portfolio? Though the earnings of some of our consumer-focused companies are likely to be impacted in the near-term, their long-term earnings power - and therefore their intrinsic value estimates - are unchanged. Such holdings include the restaurant company **Haidilao** (currently all of its China restaurants are closed) and its sister company **Yihai**, the hotel operator **Huazhu**, and the *baijiu* distillers **Moutai**, **Wuliangye** and **Yanghe**. All have all lost out on sales over the key Chinese New Year period. However, the demand for their products and services is likely to bounce back very quickly when consumers once again go about their daily activities.

With respects to trading, our activity has been relatively light thus far: we have bought a bit more of some of our existing names that currently offer a wide margin of safety. Though we are hopeful that new ideas might emerge over the next few weeks as we expect further share price fluctuations.

Lastly, we have been in awe of the Chinese people and government's unified response to the virus. Healthcare and military personnel have been working around the clock, most civilians have quarantined themselves at home, and a new [1,000 bed hospital in Wuhan was built in 10 days](#). China has a long history of enduring hardship yet emerging stronger from it. We don't know what the future holds: infections could reaccelerate, the virus could mutate, or it could lead to a global pandemic. But we are confident that the country, its people and our portfolio of world-class consumer companies will ultimately bounce back strongly from this crisis.

CORPORATE UPDATE

The Cederberg family is growing! Adeline gave birth to a baby girl Diana last month. Mother and daughter are doing well, and Song is a very proud father. Congratulations team!

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 07 Feb 2020. Source: Bloomberg, Cederberg.

⁵ Data as of 31 Jan 2020. 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	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	Hard closed	Closed to new investors	Closed to new investors	Closed to new investors	Closed to new investors
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