

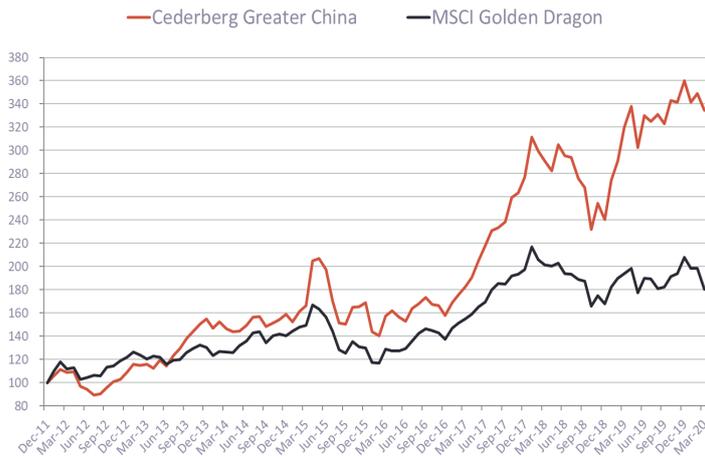
CEDERBERG CAPITAL

Cederberg Greater China Equities 31 March 2020

An introduction to Cederberg

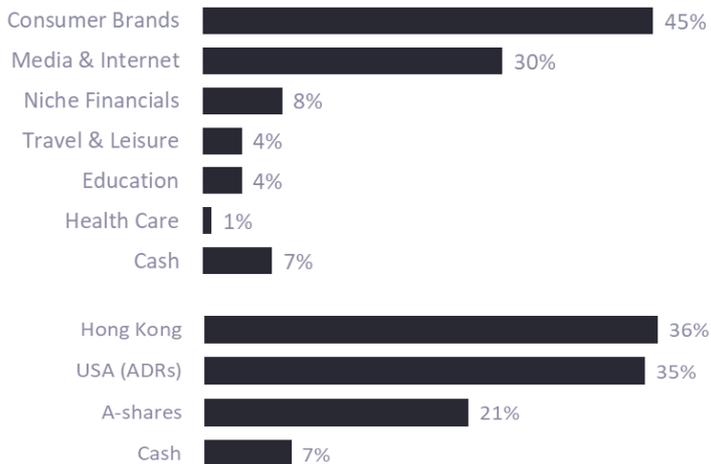
- Greater China specialists founded in 2011, majority staff-owned
- Mission: Run client money like we run our own
- Unique perspective from team in London & Shanghai
- Research-driven process focused on the region's best companies
- In every investment, we look for a durable Moat, excellent Management, 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 March 2020.

Portfolio positioning²



Risk³

Upside Capture vs. Downside Protection



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%	7%	6%	100
5 years	15%	4%	2%	99
3 years	23%	5%	4%	99
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

	Class A	Index	Peer group	Percentile
Year to date	-7%	-13%	-10%	65
3 months	-7%	-13%	-10%	65
1 month	-4%	-9%	-8%	92

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	26%
EV/EBIT (2020e)	19x	ROIC	18%
EPS growth (2020e)	23%	Market cap	US\$19bn
Net cash to equity	58%	Number of holdings	15
Dividend yield	1%	Top 10 holdings	85%

Key features⁵

Strategy	Long-only equity	Auditor	PwC
Domiciles	Cayman, Delaware	Custodian	Standard Chartered
Fund assets	US\$955mn	Administrator	Charter Group
Firm assets	US\$1.8bn	Cayman counsel	Maples & Calder
Peer group	Greater China Equity	US & UK counsel	Schulte Roth & Zabel
Benchmark	MSCI Golden Dragon	NAV - Class A	337.37
Expenses	14 bps (2018)	NAV - Class B	113.42
Turnover	15% (2019)	NAV - Class C	118.46
Email	ir@cederbergcap.com	Phone	+44 203 745 1701

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Charlie's simple truth

"The strongest companies in the world are not in America. I think Chinese companies are stronger than ours and are growing faster, and I have investments in them, and you don't, and I'm right, and you're wrong. You can laugh, but I spoke a simple truth." – Charlie Munger, February 2020

As vice-chairman of investment conglomerate Berkshire Hathaway, Charlie Munger knows a thing or two about investing. He also knows a lot about both American and Chinese companies, having invested in the former since the 1960s and the latter since the 2000s. We found his recent comments fascinating, as we've long held a similar view: that **the best Chinese companies are world-class, growing rapidly, and underestimated by most global investors.**

Let's compare four Cederberg holdings to their global peers to illustrate the point:

Name	Industry	Debt / (Cash) to Market Cap	ROIC	Sales growth	EV/EBIT
Wuliangye	Spirits	-11%	21%	25%	15x
Diageo	Spirits	21%	13%	6%	18x
New Oriental	Education	-17%	11%	30%	25x
Bright Horizons	Education	32%	9%	10%	34x
NetEase	Online Games	-15%	23%	12%	16x
Activision	Online Games	-6%	10%	-4%	19x
Haidilao	Restaurants	2%	45%	50%	23x
McDonald's	Restaurants	39%	21%	-2%	17x

Source: Cederberg, Bloomberg. ROIC is return on invested capital in 2017-2019. Sales growth is annualized per share sales growth in 2017-2019 in USD terms. EV/EBIT is Bloomberg consensus forecasts for calendar year 2020 except for the two restaurants (2021) given COVID-19 impact. Data as of 3 April 2020.

The conclusions are clear:

1. **Debt:** unlike their global peers, most of the Chinese companies have net cash balance sheets.
2. **Profitability:** the Chinese companies are more profitable.
3. **Growth:** they are growing *much* faster than their peers.
4. **Valuations:** they are quite reasonably priced, in both absolute and relative terms.

What impact will COVID-19 have on these and our other holdings? Given the unprecedented situation, it is too early to predict how the next year will unfold. However, we can make some general observations:

- China has the virus under control; virtually all new cases are people returning to the country, where they are tested and quarantined upon arrival.
- Its economy is recovering; however, with schools suspended until mid-April and with some industries still effectively shut – tourism, cinemas, gyms etc. - it will take time for business activity to normalize.
- Growth is the government's top priority; it has ample resources to support businesses and consumers.

- Unlike other emerging market currencies, the renminbi remains strong and well-supported.
- While the world economy will be severely impacted, our domestic consumer champions won't be affected much by a decline in global GDP.
- In the near term we may well see weaker competitors bankrupted; our cash-rich market leaders are poised to benefit from this in the long run.

Of course, our holdings' earnings will be affected this year – some negatively, but for a select few also positively. However, we would expect those brick-and-mortar operators that are most heavily impacted - **Haidilao, Huazhu** and **New Oriental** - to enjoy stronger than expected growth in the years to come, as fantastic locations will open up for them from weaker competitors falling by the wayside. As such, we don't envisage our intrinsic value estimates will change much.

Charlie indeed speaks a "simple truth": investors have tended to underestimate the quality and the growth of China's world-class companies. **Might the same be true for the country as a whole** – that far from being "the sick man of Asia", a "stumbling giant", or a house of cards built on debt, it is actually a **resilient economy with a bright future?** We believe so, and others are increasingly taking note. The fund is currently open to existing investors.

Conclusion

These are testing times. Thank you for staying calm and for keeping your eyes on the horizon. I hope you and your loved ones are healthy and happy, and that you are making the most of this extraordinary time, which too shall pass.

If we can assist you in any way, please do let us know.

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 April 2020. Source: Bloomberg, Cederberg.

⁵ Data as of 31 March 2020. Expenses include all fund level expenses excluding investment management fees divided by the fund’s average AUM in 2019. Portfolio turnover 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