

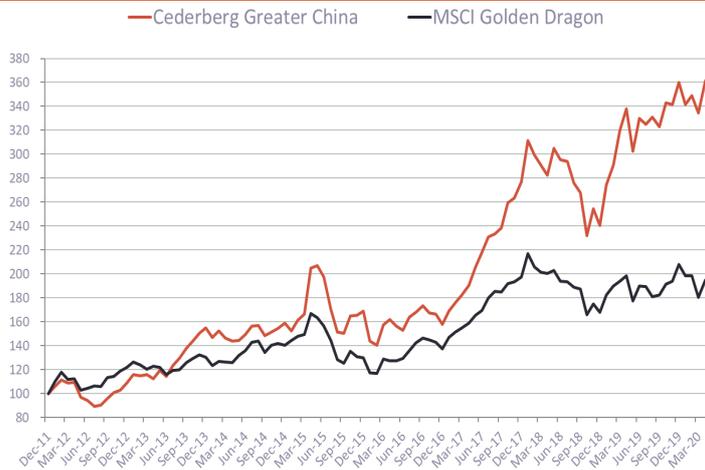
CEDERBERG CAPITAL

Cederberg Greater China Equities 30 April 2020

An introduction to Cederberg

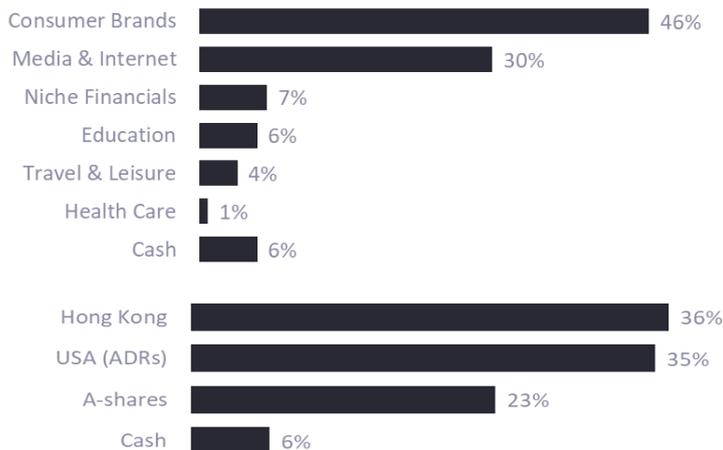
- Greater China specialists founded in 2011, majority staff-owned
- Mission: Run client money like we run our own
- Unique perspective from team in London & Shanghai
- Research-driven process focused on the region's best companies
- In every investment, we look for a durable **Moat**, excellent **Management**,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

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 p4. Source: Bloomberg, Charter Group. 30 April 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)	17%	8%	7%	100
5 years	12%	3%	1%	99
3 years	24%	7%	3%	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

Year to date	0%	-6%	-3%	68
3 months	6%	-2%	-1%	90
1 month	8%	8%	8%	60

Major holdings²

Alibaba	Ecommerce	NetEase	Online gaming
Haidilao	Restaurants	New Oriental	Education
Kweichow Moutai	Distillers	Tencent	Social network
LexinFintech	Consumer finance	Wuliangye	Distillers
Midea	Home appliances	Yihai	Condiments

Median portfolio characteristics⁴

P/E (2020e)	24x	ROE	25%
EV/EBIT (2020e)	20x	ROIC	15%
EPS growth (2020e)	23%	Market cap	US\$23bn
Net cash to equity	37%	Number of holdings	15
Dividend yield	1%	Top 10 holdings	82%

Key features⁵

Strategy	Long-only equity	Auditor	PwC
Domiciles	Cayman, Delaware	Custodian	Standard Chartered
Fund assets	US\$1.1bn	Administrator	Charter Group
Firm assets	US\$2.0bn	Cayman counsel	Maples & Calder
Peer group	Greater China Equity	US & UK counsel	Schulte Roth & Zabel
Benchmark	MSCI Golden Dragon	NAV - Class A	369.31
Expenses	14 bps (2018)	NAV - Class B	122.85
Turnover	15% (2019)	NAV - Class C	126.29
Email	ir@cederbergcap.com	Phone	+44 203 745 1701

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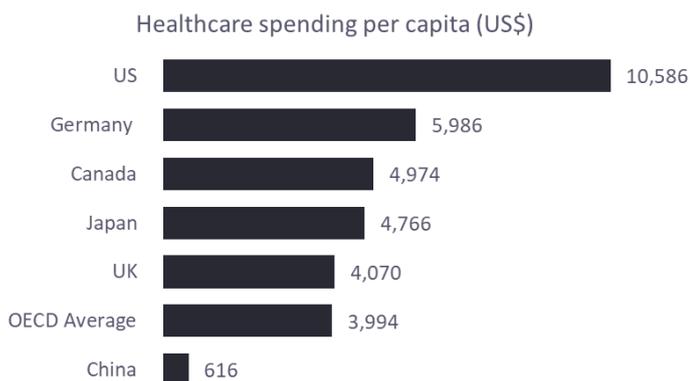
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CORPORATE UPDATE

We are pleased to announce that Skye Chen has joined us as an investment analyst. Skye hugely impressed us during his internship four years ago, which he did while studying Value Investing under Professor Eddie Ramsden at London Business School. Since then, he has worked with Johnson & Johnson's China medical devices business in both marketing and sales roles. He was previously a senior associate with PwC Consulting in Shanghai. In addition to an MBA from LBS, Skye has degrees in Management and English from Zhejiang University and has passed CFA Level III. Skye started in our Shanghai office last month, alongside Luke and Daniel. Dan will join them when travel restrictions have been eased. Welcome, Skye!

JUST WHAT THE DOCTOR ORDERED

We've spent months analysing Chinese healthcare companies over the years. In the process, we've built up substantial industry knowledge (though sadly our clients have yet to benefit from it!). That knowledge has been augmented by Skye's on-the-ground industry experience, which has already increased our understanding of this fascinating sector. What is it that we find interesting about healthcare, and why do we have so little of it in the portfolio today? In this brief note, we'll share our high-level thoughts on the sector and what investors should expect from us going forward.



Figures for 2018. Source: National Health Commission of China, OECD

To say that healthcare in China is a growth story is an understatement: despite the country's per capita spending growing at 16% p.a. over the past 18 years, it is still only 1/7th that of the UK and 1/17th that of the US. The same tailwinds that the sector has enjoyed historically are likely to persist for years to come, e.g. supportive government policies, rising consumer affluence and an aging population. Consider the country's changing demographics: in 1970, the median age was 19 years; today that figure is 38, and by 2040 it is projected to be 47. As people age, they tend to experience more ailments, which require more (and costlier) treatments: according to Bernstein, Americans aged 25 or younger use five prescriptions per year, while those aged 65 or older use a whopping 46 scripts!

All good and well, but what use is growth to investors without wonderful companies that will benefit from it? As frequent readers (thanks Mum!) can attest, our assessment of a business' quality is a function of how confident we can be in its ability to generate prolific free cash flow in the long-term. If our analysis reveals a company with a durable **moat** and excellent **management**, we will become increasingly confident, and if not, we tend to ignore it. We will save the discussion on management - including corporate culture and incentives - for another time. When it comes to moats in healthcare, these tend to be based on one or a combination of scale economies (e.g. contract research organisations, pharmacy chains), brands (e.g. TCM), intellectual property (e.g. pharmaceuticals, biotech, devices) and knowhow (e.g. hospital chains). Over the years, we have identified over a dozen healthcare names that meet our quality criteria across all of these sub-industries; this figure will almost certainly increase over time.

Having this number of interesting companies is a significant change from five or ten years ago, when China didn't have many quality healthcare businesses. It is fair to say that the bulk of new products developed over the years were of the "me-too, me-better" variety, i.e. incremental innovation at best. However, in recent years, the country's exodus of talent has reversed, with thousands of scientists returning from overseas companies and research institutions, turning a "brain drain" into a "brain gain". The government has been a key player in this process: to encourage real innovation, they have sped up approval processes, extended patent protections, tackled corruption, and increased funding. The country's burgeoning venture capital industry has also been vital, investing \$17bn in early-stage biotech in 2018, more than double the equivalent figure for the US. On a less positive note, changes in lifestyle, diet and pollution have meant cancer rates have gone through the roof, with 4.3mn new cases reported annually. While a tragedy at the human level, it has been a boon for innovation in the domestic healthcare industry, especially biotech.

Does China have a vast universe of listed healthcare companies, and can long-term investors identify attractive opportunities? In both cases, the answer is yes. Of the 695 healthcare companies in the world with a market cap >\$1bn, 199 come from Greater China. These companies are relatively small, with an average market cap of \$4bn vs \$18bn for the typical American one (there are no companies from China among the top 30 in the world vs 21 from the US). It is likely that several mega-cap companies will ultimately emerge from this group, potentially offering investors 10x, 20x and even 100x returns. It remains to be seen whether these can be identified *ex-ante*, nevertheless we relish the challenge!

What's not to like, you ask? Actually, investing in China's healthcare sector is far from a one-way bet:

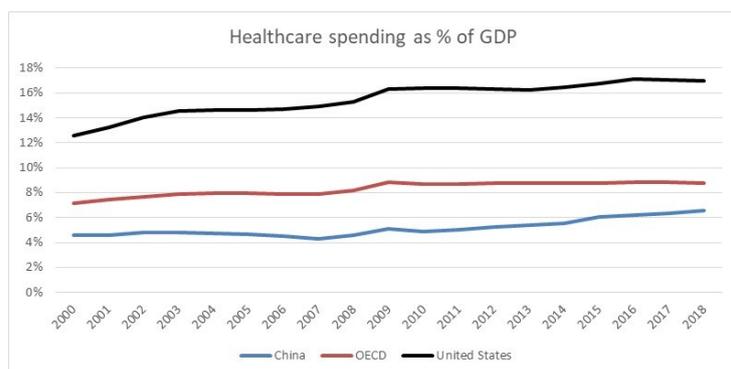
1. **Valuations:** lofty prices are the key reason we don't have more exposure to the sector today; the median price-

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earnings ratio of Chinese healthcare names is 27x, while market leaders typically trade above 50x.

2. Governance: low doctor salaries and the state's heavy involvement have led to wide-scale corruption (British behemoth GSK was fined \$500mn for bribery in 2014).
3. Regulation: while China's healthcare expenditure is low vs other countries (see chart below), it has been creeping up; the government have introduced several measures to contain costs, which have led to substantial price cuts in the past.
4. Complexity: many of the most innovative companies in the space currently fall outside our circle of competence, though we are looking to address this over time.
5. Competition: this is China, after all!



Source: National Health Commission of China, OECD

As a result, Cederberg's current healthcare exposure is limited to a modest position in the 351-year old TCM brand **Beijing Tong Ren Tang Chinese Medicine**. Over time, we are optimistic that we will be able to find more investment ideas in this exciting sector. As always, that would depend on each of our 3M criteria – **Moat, Management and Margin of Safety** – being met. In the meanwhile, we'll be keeping a close watch.

CONCLUSION

Please don't hesitate to contact us should you wish to discuss anything. We welcome all feedback, questions and ideas.

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 6 May 2020. Source: Bloomberg, Cederberg.

⁵ Data as of 30 April 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