

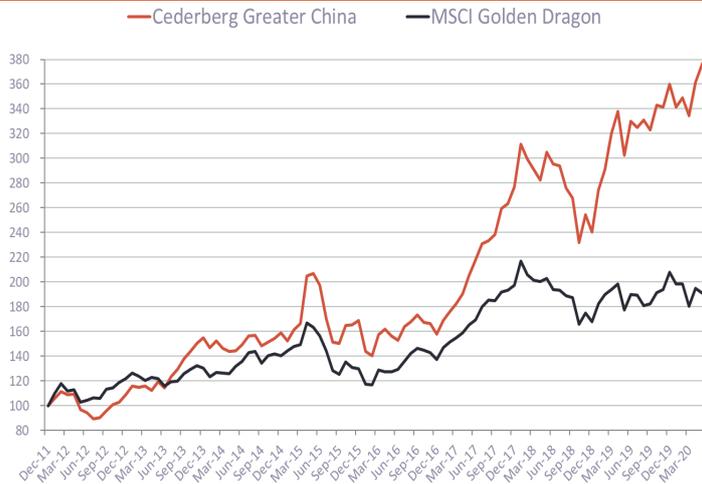
CEDERBERG CAPITAL

Cederberg Greater China Equities 31 May 2020

An introduction to Cederberg

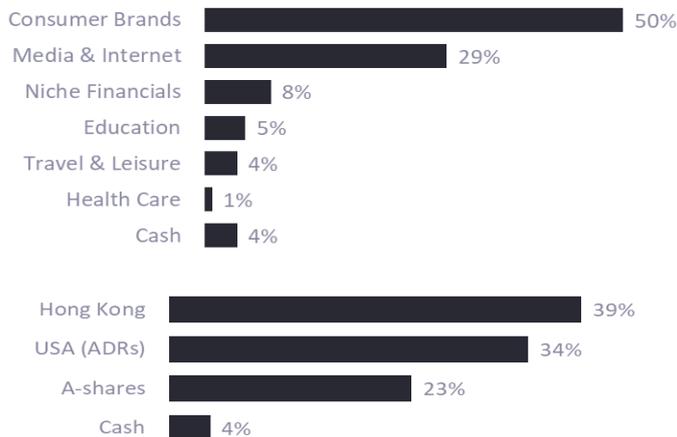
- Greater China specialists founded in 2011, majority staff-owned
- Mission: Run client money like we run our own
- Unique perspective from team in London & Shanghai
- Research-driven process focused on the region's best companies
- Durable **Moats**, excellent **Management**, and a large **Margin of Safety**
- We manage a high conviction portfolio of long-term winners
- **Current investors are able to add to their subscriptions; new investors will be accepted should capacity become available**

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 May 2020.

Portfolio positioning²



Risk³

Upside Capture vs. Downside Protection



Why Cederberg is not suitable for everyone

- Our products are considered very risky; given our long-term focus and comfort with being different, **we are not suitable for most investors**
- **Chinese equities are highly volatile: declines >50% are not unusual**
- Our returns have been more volatile than those of the index
- We run a concentrated portfolio that differs from the index and those of 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	13%	3%	1%	99
3 years	22%	5%	5%	98
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	3%	-8%	-4%	74
3 months	7%	-4%	-2%	94
1 month	3%	-2%	0%	86

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)	30x	ROE	25%
EV/EBIT (2020e)	20x	ROIC	18%
EPS growth (2020e)	30%	Market cap	US\$21bn
Net cash to equity	43%	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\$1.1bn	Administrator	Charter Group
Firm assets	US\$2.1bn	Cayman counsel	Maples & Calder
Peer group	Greater China Equity	US & UK counsel	Schulte Roth & Zabel
Benchmark	MSCI Golden Dragon	NAV - Class A	372.60
Expenses	14 bps (2018)	NAV - Class B	126.86
Turnover	15% (2019)	NAV - Class C	130.76
Email	ir@cederbergcap.com	Phone	+44 203 745 1701

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AVOIDING A BITTER CUP

"Only the paranoid survive."
– Andy Grove, former-CEO of Intel



During her high school years in Vancouver, my wife worked part-time as a Starbucks barista. This is likely why the fanciest item in our house is “her” coffee machine. On the rare occasion that I am allowed near it, freshly ground coffee beans inevitably end up in her latte, which leads to an undrinkable concoction. Investors in Luckin Coffee recently received a bitter cup of their own when the company acknowledged its revenues were significantly overstated, leading to its market cap collapsing from \$12bn to less than \$500mn. What went wrong at the “Starbucks of China”?

Until recently, Luckin was one of China’s hottest start-ups, selling quality snacks and beverages at lower prices than the major Western chains. By offering consumers significant discounts, it grew its footprint to over 4,000 stores in a mere two years (it took Starbucks two *decades* to achieve this in China). The company contemplated opening tens of thousands of stores, which didn’t seem unrealistic considering that Chinese people still only drink a mere five cups of coffee per year compared to over 200 cups in other tea-drinking nations such as Korea and Japan, not to mention the 363 cups for Americans or over 1,000 cups per year for Scandinavians!

We tend to be interested in fast-growing consumer franchises, especially if they sell branded beverages containing an addictive mix of caffeine and sugar *a la* Starbucks, Coca-Cola, and Red Bull. Hence, we decided to analyse the company late last year. Our initial enthusiasm quickly evaporated following some troubling discoveries:

1. Poor track record: the founder’s other business ventures were decidedly mediocre.
2. Questionable business practices: we were told that the founder would frequently move teams of people between his unrelated ventures.
3. Exuberant investor communications: our meeting with the company stands out as one of the most aggressive pitches we’ve heard in years.
4. Insiders cashing out: we found it odd given the “wonderful growth story” claims.
5. A chequered past: one of the co-founders had spent time in prison.
6. Balance sheet worries: by burning cash at a rapid rate, the company would have to issue equity and debt frequently; would it survive if investor confidence disappeared?
7. Uncertain long-term profitability: would customers remain loyal once subsidies ceased?

We didn’t know for sure that Luckin was a fraud, but several warning signs made us give it a wide berth. On January 14th, with its share price close to an all-time high, the company raised several hundred million dollars, with insiders cashing out at the

same time. On January 31st, short-seller Muddy Waters alleged that the company was a fraud. On April 2nd, the company announced that its 2019 revenue figures were significantly overstated and that it had fired its COO and several other people. Since then, investors have lost billions of dollars; the company may soon be delisted.

How has Cederberg been able to avoid Luckin and other frauds since its inception? Firstly, we perform our *own* research, irrespective of how big or how small a company is. Secondly, three (soon to be four) of our six analysts are based in Shanghai, which enables us to do on-site due diligence and fact-checking with experts such as customers and former-employees. Thirdly, we obsess about free cash flow rather than easily-manipulated P&L or balance sheet items. Fourthly, we assume a “guilty until proven innocent” mindset to all potential investments, even if it means we will miss out on legitimate opportunities. Lastly, and perhaps most importantly, a huge part of our research is of a qualitative nature, assessing management’s character and the organisation’s culture to ascertain whether we would want to partner with them for the long run.

Luckin is an example of the pitfalls that investors face in China. It was a large, well-known company with a Big Four auditor, high-profile shareholders, and blue-chip investment banks and lawyers vouching for it, yet it turned out to be a house built on sand. While we dodged this one (and many others), we cannot guarantee that we will be able to avoid all frauds and corporate governance scandals in the long run. But we are confident that our rigorous process - and a healthy dose of paranoia - should lead us to avoid the vast majority of them. If we can achieve this, that cup might end up not so bitter after all.

CORPORATE UPDATE

The Cederberg family is growing! Skye became a father to a baby boy named Xingchen (“Starry”) last month. Mother and son are both well, and Skye is over the moon. Well done 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 5 June 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