

CEDERBERG CAPITAL

Cederberg Greater China Equities 31 December 2020

An introduction to Cederberg

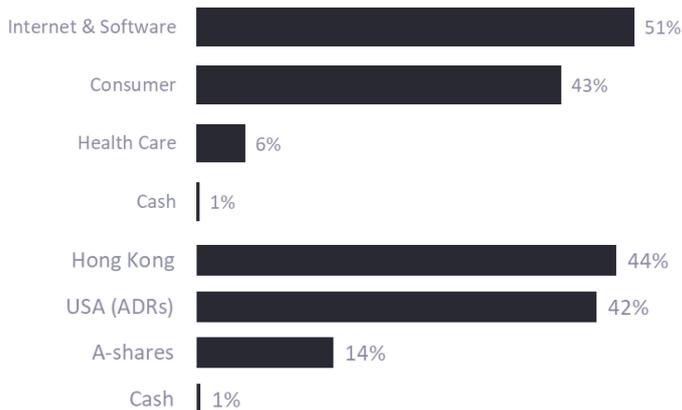
- Greater China specialists founded in 2011, majority staff-owned
- Mission: Run client money like we run our own
- Unique perspective from team in London & Shanghai
- Research-driven process focused on the region's best companies
- Durable **Moats**, excellent **Management**, and a large **Margin of Safety**
- We manage a high conviction portfolio of long-term winners
- **We are currently accepting subscriptions from existing investors only**

Performance chart¹

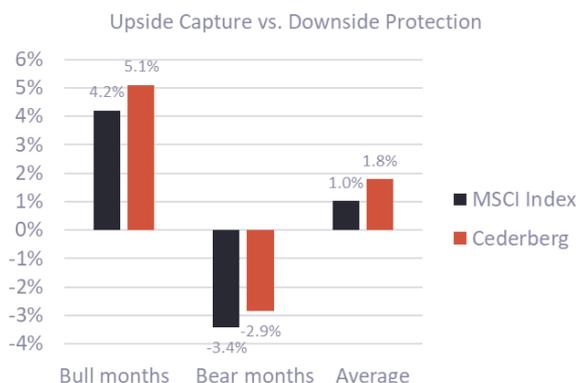


Class A shares, all figures in US\$ net of fees. MSCI Golden Dragon Index includes net dividends. Y-axis uses a logarithmic scale. Past performance is not indicative of future results - please see regulatory information on p3. Source: Bloomberg, Charter Group. 31 December 2020.

Portfolio positioning²



Risk³



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 focused portfolio that differs from the index and 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
<i>Annualised</i>				
Since inception (1/1/2012)	21%	12%	11%	100
5 years	27%	15%	12%	98
3 years	26%	11%	12%	93
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
<i>Not annualised</i>				
Year to date	54%	28%	41%	69
3 months	11%	14%	16%	18
1 month	8%	5%	6%	66

Major holdings²

Alibaba	Ecommerce	Kweichow Moutai	Distillers
China Meidong	Autodealers	New Oriental	Education
Ever Sunshine	Property Services	Tencent	Social network
GDS Holdings	Datacentres	Wuliangye	Distillers
Haidilao	Restaurants	Yihai	Condiments

Median portfolio characteristics⁴

P/E (2021e)	37x	ROE	19%
EV/EBIT (2021e)	32x	ROIC	11%
EPS growth (2021e)	38%	Market cap	US\$17bn
Net cash to equity	50%	Number of holdings	20
Dividend yield	1%	Top 10 holdings	71%

Key features⁵

Strategy	Long-only equity	Auditor	PwC
Domiciles	Cayman, Delaware	Custodian	Standard Chartered
Fund assets	US\$1.7bn	Administrator	Charter Group
Firm assets	US\$3.2bn	Cayman counsel	Maples & Calder
Peer group	Greater China Equity	US & UK counsel	Schulte Roth & Zabel
Benchmark	MSCI Golden Dragon	NAV - Class A	553.20
Expenses	10bps (2020)	NAV - Class B	188.89
Turnover	26%	NAV - Class C	174.26
Email	ir@cederbergcap.com	Phone	+44 203 745 1701

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INVESTMENT UPDATE: HIGHLY EVOLVED

“Intelligence is the ability to adapt to change.” – Stephen Hawking

“Change is the only constant.” - Heraclitus

What a year! While we are far from satisfied with some of the decisions we made over the past 12 months (the royal we), it behoves us to be thankful. Thankful that our team and our families are healthy. Thankful that we invest in a country that has dealt with the virus effectively. Thankful that we own companies that have become stronger as a result of it. Thankful that our clients have kept their eyes on the horizon.

Charles Darwin is viewed as the father of evolution and spent his life observing nature. Interestingly, collecting plant and animal samples during the Beagle voyage took him less than four years; his real breakthroughs came from the reflection he did at home over the subsequent four decades. Perhaps a lesson for investors: we overestimate the importance of “work” and underestimate the importance of reflection!

Darwin famously said “It is not the strongest of the species that survives, not the most intelligent that survives. **It is the one that is the most adaptable to change.**” Had he been a student of companies, he might have reached a similar conclusion. In our experience, often it isn’t the biggest company, nor the most profitable, nor the best capitalised that succeeds in the long run. It is the one that stays the most adaptable to change. These types of companies tend to thrive and take market share in the good times and the bad.

Though we don’t often find this trait in companies and their leaders, we have come across some “highly evolved species” over the years. Unsurprisingly, many are in the internet space, but some also reside in more traditional industries. Take Haidilao and its founder Zhang Yong for example. Who would have wanted to own and manage a hotpot restaurant chain in 2020? Indeed, the company lost money in the first half of the year. Yet it gained significant market share as a result of the crisis: its revenue grew c. +15% last year, while most of its peers either shrank or went bust. This outperformance was due to the company adapting quickly to a woeful year for the catering industry, as it implemented several initiatives:

1. It capitalised on its perception of high-quality, safe food as it introduced “contactless” orders to rapidly grow its delivery business.
2. It renegotiated its leases, getting up to two years rent-free on some sites.
3. It launched multiple new healthy food and drink items.
4. It retained all its restaurant staff and paid them through-

out the crisis.

5. It implemented a long-term succession plan and a points-based promotion system.
6. It launched more than 10 new restaurant formats as it experiments with different brands and concepts.
7. Having started 2020 with 768 restaurants, it took advantage of great locations becoming available to open 500 new ones; the company plans to open 1,000 stores over the next 2-3 years.

Haidilao is far from being alone: virtually all our holdings gained market share last year. The top 10 grew their revenue and operating profit c. +25%, which is extraordinary given that it was the weakest year for China’s economy in four decades (if not longer). However, share price movements more than reflected this: the fund gained +54% (Class A shares, US\$ net of fees). While we have been able to find several new ideas that should bode well for the future, we would caution against extrapolating recent returns. Given our concentrated, long-term approach, we will undoubtedly face significant underperformance at some point in the next few years.

Top 10 Holdings	EBIT Growth 2020	EBIT Growth 2017-2020	Rev Growth 2020	Rev Growth 2017-2020
Alibaba	+31%	+22%	+33%	+38%
China Meidong	+26%	+35%	+24%	+35%
Ever Sunshine	+64%	+76%	+64%	+62%
GDS	+36%	+35%	+25%	+31%
Haidilao	-51%	-3%	+15%	+39%
Kweichow Moutai	+12%	+19%	+10%	+17%
New Oriental	+24%	+18%	+16%	+22%
Tencent	+40%	+22%	+27%	+26%
Wuliangye	+23%	+30%	+14%	+23%
Yihai	+34%	+51%	+31%	+51%
Average	+24%	+31%	+26%	+34%
Median	+29%	+26%	+25%	+33%

*Annualised per share growth in Earnings Before Interest and Tax, Revenue.
Source: Bloomberg, Cederberg Capital.*

When it comes to humans’ ability to adapt, Darwin had the following to say: “An American monkey, after getting drunk on brandy, would never touch it again, and thus is much wiser than most men.” Thankfully for our clients, despite my sloth-like pace of learning, we have assembled a collection of wonderful businesses run by adaptable visionaries. We sleep well at night knowing that these highly evolved CEOs are the actual stewards of our collective capital.

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CORPORATE UPDATE: EVOLUTION AT CEDERBERG

Just like companies, investment managers face a Darwinian struggle for survival. Historically, China has been less competitive than other major equity markets. But **the asset class is likely to get much more efficient over the next few years** as local investors raise their game and as global investors descend upon the world's best structural growth story. So, what have we done over the past year to help us avoid the dodo's fate?

1. We grew the investment team to six people, four of whom will be based in Shanghai.
2. We improved our investment process by finetuning our valuation framework, formalising idea generation, and inviting experts to speak with us on pertinent topics.
3. We widened our circle of competence to include industries such as software and biotech.
4. We bolstered our operations and client services by growing the team and utilising technology; this has had the added benefit of freeing up the investment team's time.
5. We improved our trading and portfolio management systems, reduced brokerage fees, and found new ways to transact in less liquid securities.
6. We diversified our client base by briefly reopening the fund to new investors following two large redemptions.
7. We broadened employee equity ownership and delegated responsibilities to reduce key person risk.
8. We prioritised our team's emotional wellbeing and development through several initiatives, including working with an excellent executive coach.

The above is not meant to be the equivalent of us giving ourselves a nice pat on the back. It is sharing with you the trepidation with which we approach the future!

Eagle-eyed readers (Mum, Dad?!) might ask why are we wasting our time in "expensive" and complicated sectors such as software and biotech?

Investing is similar to other skill-based activities where mistakes have consequences – think skiing, chess, or Fortnite – in that learning depends on finding the right balance between staying within one's circle of competence and expanding one's limits over time. Hence, **we must continue to explore, even if this leads to mistakes** (as it has in the past).

Why biotech and software? Many of these companies are highly innovative and long-term-oriented, and as such, they warrant our scrutiny. Thus far, we have been able to identify some great businesses. In fact, over the past year, we've established positions close to 15% in these industries. Time will tell whether we knew what we were doing, or whether we got too far over our skis.

Irrespective of what happens, we will share more details with you in the future.

CONCLUSION

Clients and their advisers are welcome to join our semi-annual investor call at 3pm UK time on 27 January by registering [here](#).

To our clients: thank you for staying calm during a very challenging year. We hugely appreciate the trust and the confidence you place in us.

To our team: I'm incredibly proud of how you've dealt with adversity to consistently deliver world-class work - thank you!

Wishing you and your loved ones all the best for 2021!

David Krige

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Regulatory information and risk warning

This document is issued for information only by Cederberg Capital Limited (the “Firm” or “Cederberg”). The Firm is authorised and regulated by the Financial Conduct Authority (registration number 775092). It does not constitute an offer by the Firm to enter into any contract/agreement nor is it a solicitation to buy or sell any investment. Nothing in this document should be deemed to constitute the provision of financial, investment or other professional advice in any way. The contents of this document are based upon sources of information believed to be reliable, however, save to the extent required by applicable law or regulations, no guarantee, warranty or representation (express or implied) is given as to its accuracy or completeness and, the Firm, its members, officers and employees of the corporate member do not accept any liability or responsibility in respect of the information or any views expressed herein. All data is sourced from the Firm unless otherwise indicated. This document may include forward-looking statements that are based upon the managers’ current opinions, expectations and projections. The Firm undertakes no obligation to update or revise any forward-looking statements. Actual results could differ materially from those anticipated in the forward-looking statements. This document is not aimed at persons who are residents of any country, including the United States of America (“USA”) and South Africa, where the funds referred to herein are not registered or approved for marketing and/or sale or in which the dissemination of information on the funds or services is not permitted. This document should not be distributed to any third party without the express approval of the Firm. It has been designed for a professional audience only and should not be passed onto a retail audience.

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 shows 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 31 December 2020. Source: Bloomberg, Cederberg.

⁵ Data as of 31 December 2020. Expenses include all fund level expenses excluding investment management fees divided by the fund’s average AUM in 2020. Portfolio turnover is an average of the value for the three preceding calendar years (2020, 2019, 2018), calculated as the lower of all buy or all sell transactions divided by the fund’s average AUM for each period. 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 frequency	Monthly	Monthly	Monthly	Monthly	Monthly
Redemption frequency	Monthly	Quarterly	Quarterly	Quarterly	Quarterly
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 as of 31 Dec 2014 and annually thereafter	20% of net alpha over MSCI Golden Dragon if Fund generated >6% p.a. US\$ returns; payable for the first time as of Dec 2021 and annually thereafter	25% of returns over 6% p.a. US\$ hard hurdle; payable for the first time as of Dec 2021 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 calendar quarter	25% per calendar quarter	N/A	N/A
ISIN	KYG2030A1004	KYG2030A1186	KYG2030A1269	N/A	N/A
Sedol	BMM1R81	BFZYW5	BD31D23	N/A	N/A