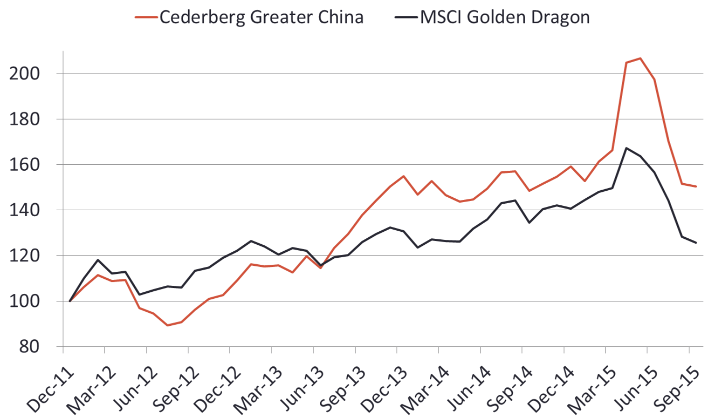
CEDERBERG CAPITAL

Q3 2015 LETTER

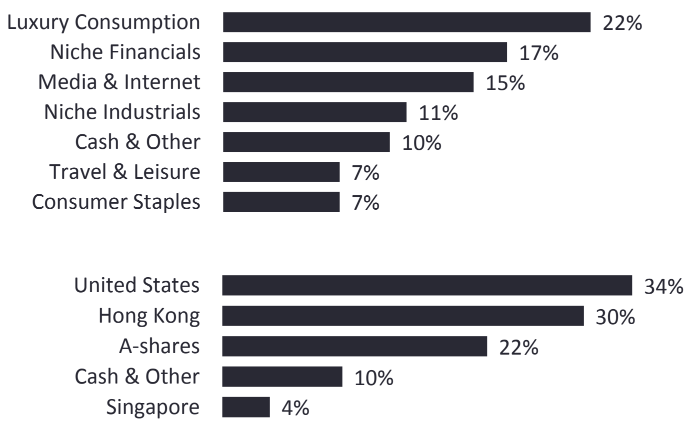
Performance Chart[1]



Performance Table[2]

Net Returns in US$	Cederberg	MSCI Golden Dragon	Peer group
Since inception	50%	26%	23%
Since inception annualised	11%	6%	6%
3 years annualised	16%	3%	4%
1 year	1%	-7%	-6%
Year to date	-6%	-11%	-10%
3 months	-24%	-20%	-20%
2014	3%	8%	3%
2013	42%	7%	10%
2012	9%	22%	18%

Exposure by Category[3] and Listing

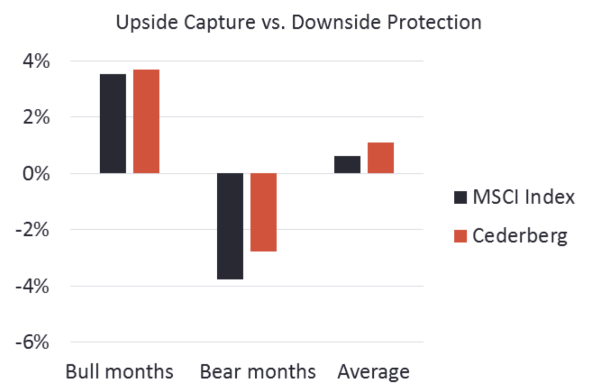


Top 10 Holdings in Alphabetical Order[4]

Stock	Industry
Brilliance China	Automaker
China Biologics	Blood plasma producer
Clear Media	Outdoor advertising
Gree Electric	Home appliances
Kweichow Moutai	Distillers
Noah	Asset management
Nu Skin	Personal care
Soufun	Real estate advertising
Value Partners	Asset management
Wuliangye Yibin	Distillers

Key Characteristics[5]

Price/Earnings Ratio (2015)	12.6x	Fund Assets	$101m
Price/Book Ratio	3.1x	Total Assets	$138m
Dividend Yield	3.1%	Number of Holdings	18
Return on Equity	24%	Top 10 Holdings	62%
Net Cash to Market Cap	12%	Upside Capture[6]	104%
Median Market Cap	$2.4bn	Downside Capture[6]	74%



Key Features[7]

Fund	Cederberg Greater China Equity Fund
Strategy	Long-only absolute return equity
Legal status	Cayman mutual fund
Dealing	Monthly with 30 days notice
Initial minimum	US$100,000
Benchmark	MSCI Golden Dragon Index
Management fee	1.5% p.a.
Performance fee	20% of outperformance above MSCI GD Index; payable after 3 years if fund beats 6% p.a.
Custodian	Bank of America Merrill Lynch
Auditor	Deloitte
Administrator	Charter Group Admin
Cayman counsel	Maples & Calder
US & UK counsel	Schulte Roth & Zabel
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Volatility: friend or foe?

Recent market action has reminded investors how volatile Chinese equities can be: in the first four months of the year, the MSCI Golden Dragon index gained 19%, only to fall 25% in the subsequent five months (all returns in US dollar). Though the fund has historically outperformed in weak markets, this was not the case during the recent indiscriminate selling.

While many commentators try to rationalise market behaviour *after* the event (often with perfect hindsight), we find it more instructive to examine recent declines in a historical context and what the outlook might be from here.

Over the past 15 calendar years the H-share index, a good proxy for the opportunity set available to foreign investors over this period, gained 13% p.a. This was better than most other markets, including the US which returned 4% p.a. during this time. However, in 13 of those years, it suffered intra-year declines of 20% or more, including a gut-wrenching drop of 69% in 2008.

Cederberg's performance has also been volatile, as we seek to maximize long term returns by managing a concentrated portfolio that typically looks nothing like the index. In this respect we agree with Warren Buffett who put it rather succinctly: 'I would much rather earn a lumpy 15% over time than a smooth 12%'.

Though Chinese equities' volatility means the asset class is not for the faint of heart, it has one major benefit: it periodically allows investors the opportunity to buy great businesses at bargain prices. Now is such a time: we recently bought two companies that we've had in our sights for years, and have also added to some of our existing high conviction names.

Likewise, the majority of our clients have taken a long term view: during recent market turbulence the fund received $18m of subscriptions; this contrasts with just $2m of redemptions. Not only does our clients' long term orientation keep us in business, it also presents our biggest edge relative to our peers. As investment guru Seth Klarman said: 'Having great clients is the key to investment success '. We thank each and every one of you who have entrusted your capital to us. It may offer you some comfort that over 90% of my net worth is invested alongside your savings in the fund, as well as the majority of the investment team's annual bonuses.

Despite the current bearish headlines, we have seldom been more excited about the outlook for our portfolio of high quality leaders that continue to grow at a healthy clip despite the slowing economy. The fund's holdings have an average Return on Invested Capital of 20%, have net cash balance sheets, and start on a median P/E ratio of 12x 2015 earnings, which are growing at 13% based on conservative estimates. These numbers are highly attractive when compared with the fund's own history, as well as relative to the slim pickings on offer in most other markets.

Though the asset class' volatility is likely to remain high, current valuations offer a decidedly rare opportunity for those investors who can withstand it.

Case Study: HCM

Hutchison China Meditech (HCM) is a pharmaceutical company with a pipeline of innovative biotech drug candidates and a stable Traditional Chinese Medicine (TCM) business. It is arguably the only quality Chinese company listed on London's AIM market. In 2013, we invested in HCM because it was a good company with strong growth offering a huge margin of safety: at £5 a share the market not only undervalued its TCM business, it completely ignored the value of its R&D pipeline. We exited the position earlier this year at £14 as it approached our intrinsic value estimate.

HCM is 65%-owned by Hutchison Whampoa, the listed vehicle of Li Ka-Shing, one of Asia's most successful entrepreneurs. As a result of its parent's reputation and deep pockets, it has been able to attract top class management and scientists.

Its TCM business owns several well-known brands that enjoy strong customer loyalty, such as the cold remedy *Baiyunshan Banlangen* and its proprietary cardiovascular drug *She Xiang Bao Xin*. While these brands mean little to most Westerners, they are hundreds of years old and enjoy household recognition in China. Regulatory risk is relatively low and patent expiry isn't much of an issue, as the government owns all TCM compound recipes with HCM merely owning the brands. The TCM business is growing at 15-20% per annum and generates significant free cash flow.

HCM's biotech business has a pipeline of 7 novel immunology and oncology drugs. It has partnered with blue chip global pharmaceutical companies such as AstraZeneca and Lilly to bring several compounds through clinical trials. Despite running 16 concurrent clinical studies, the business has not required equity capital due to milestone payments from its partners and strong cash generation by its TCM business. This is a rarity in the biotech sector.

As part of our research, we visited its TCM operations and R&D centre, met with employees from various divisions, and spoke with many of their customers and competitors.

When we bought it, HCM was very much neglected: a small cap Chinese company listed on AIM, with limited analyst coverage, and low familiarity with its products amongst UK-based investors. Progress in its clinical trials coupled with strong investor interest in the biotech sector led to its share price trebling in two years. While we continue to like its assets and management, we felt that the market had become too optimistic on its R&D portfolio and that its share price could only be justified by significant drug discoveries, which are highly uncertain at the best of times. We sold our holdings at £14 a share earlier this year.

Our investment in HCM shows how we like to invest in high quality, well-managed companies that are misunderstood or neglected by the market, after we've done our own in-depth research. It also demonstrates our sell discipline when valuations no longer offer a margin of safety. Hopefully we will get another chance to invest in this fine business, but in the meanwhile we are comfortable owning companies with risk/reward profiles that are significantly more attractive.

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A day in the life

At Cederberg, we love spending our days doing research and immersing ourselves in our subject matter. In the past, Charles worked in a curtain factory to understand the mind-set of migrant workers; Daniel got to know a company so well that he was asked to present his findings to the board; and I recently spent a month in a lower tier city to find out what makes its residents tick.

Guilin is one of about 230 “third tier” (or prefecture-level) cities in China. Located in Guanxi Province in the southwest, it has an urban population just shy of 1m people. It is relatively poor, with a GDP per capita of $5,000 vs. a national average of $8,000 (it just got its first Starbucks) and is famous for its natural beauty.

During the month my family and I spent there, I interviewed a number of people to understand how they spend their money, what they worry about, and what they would like to achieve with their lives. While one shouldn’t read too much into one anecdote, the story of my language teacher Chen Yan provides some fascinating insights into the hopes and dreams of middle class migrant workers.

Hailing from a village an hour away, Chen Yan moved to Guilin 15 years ago to study at the local university. Today she teaches Chinese to foreign students at the university and at a private college. In addition, she and a friend started a small restaurant a year ago, which requires her to work long hours but has also doubled her income, half of which she saves.

Her mother looks after her young son, allowing Chen Yan to focus all her energy on the three jobs she juggles. Her husband is a surgeon in the provincial capital over two hours away by fast train. They see each other once a month. Although they are allowed to have another child, they have no plans (‘kids are expensive!’).

Chen Yan owns her home in Guilin and would like to buy one more (‘for my son’). This investment has entitled her to a *hukou*, or urban residence permit, which gives her access to social services such as healthcare and education for her son.

Chen Yan’s dreams are to run her own language school, to open another restaurant, and to travel. Indeed, almost every person we met wanted to travel more, starting with major Chinese cities like Shanghai and Beijing, followed by international destinations.

The stock market meltdown in July had no impact on her (‘I don’t have time to invest’). Less than half of her friends had some exposure to the market, mostly those who work for the government as ‘they have a lot of time on their hands and are not allowed to have their own businesses’. Despite a slower economy, Chen Yan and most of her peers have strong faith in the Chinese government and believe the country has a bright future.

Her concerns were consistent with those of everyone else I met: inflation, the cost of education, and the price of property (especially among those who are not yet on the property ladder). While her salary has risen by 10% p.a. over the past 5 years, she estimates that her cost of living has risen by 13% p.a. (the official inflation rate averaged 3% during this time). Unlike most Chinese cities, pollution is not too bad in Guilin, though Chen Yan takes care to only buy milk from New Zealand and The Netherlands.

Many things don’t work the way they should. Dealing with the government is a constant frustration, and waiting in long queues part of everyday life. On the positive side, she feels bureaucracy has been improving and will continue to do so.

Chen Yan’s story of bootstrapping herself out of poverty into a more secure existence is the story of millions of Chinese migrant workers. This nation of entrepreneurial people, led by a competent leadership corps, in an economy with significant scope for further productivity gains, are the key reasons why we are positive on the country’s long term future.

While the journey is unlikely to be a smooth one, we are confident that China’s best years lie ahead of it.

Final Thoughts

Let me reiterate my thanks for the long term support of our investors, and my ongoing gratitude that I am surrounded at Cederberg by such wonderful colleagues: Borch, Charl, Charles, Daniel and Tenielle.

Warm regards,

Dawid Krige

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Regulatory information and risk warning

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Disclosure

[1] Performance is for an investment made at the fund's inception; individual investors might experience different performance. MSCI Golden Dragon Total Return Index includes net dividends reinvested. Source: Charter Group Admin, Bloomberg, Cederberg.

[2] Peer group is Bloomberg universe of funds with Greater China geographical focus. Source: Bloomberg, Cederberg.

[3] Category definitions as per Cederberg.

[4] Source: Cederberg.

[5] Portfolio characteristics are quoted as of 30 September 2015. Source: Bloomberg, Cederberg.

[6] Upside Capture is calculated by dividing the fund's average NAV return during months in which the index had a positive return by the average index return during those months. Downside Capture is calculated by dividing the fund's average NAV return during months in which the index had a negative return by the average index return during those months. Source: Cederberg.

[7] Source: Cederberg.

Sources for all other figures quoted in this letter are available upon request.

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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