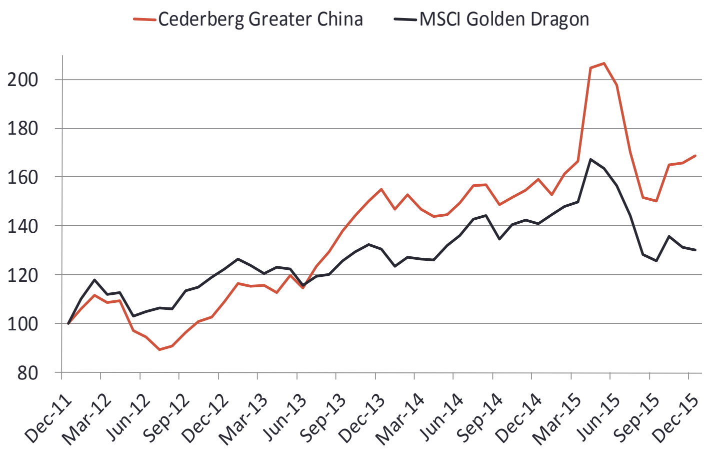
CEDERBERG CAPITAL

Q4 2015 LETTER

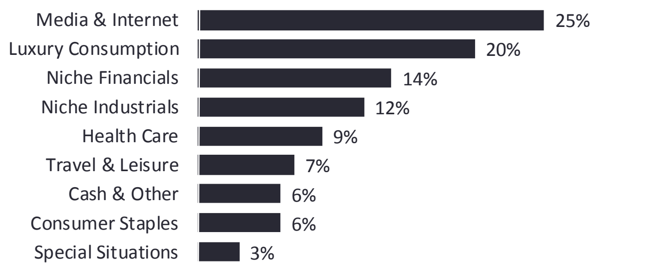
Performance Chart[1]

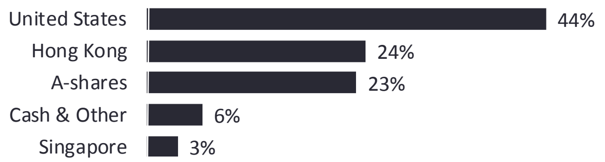


Performance Table[2]

Net Returns in US$	Cederberg	MSCI Golden Dragon	Peer group
Since inception	69%	30%	30%
Since inception annualised	14%	7%	7%
3 years annualised	16%	2%	3%
1 year	6%	-7%	-4%
3 months	12%	4%	4%
2015	6%	-7%	-4%
2014	3%	8%	3%
2013	42%	7%	10%
2012	9%	22%	18%

Exposure by Category[3] and Listing





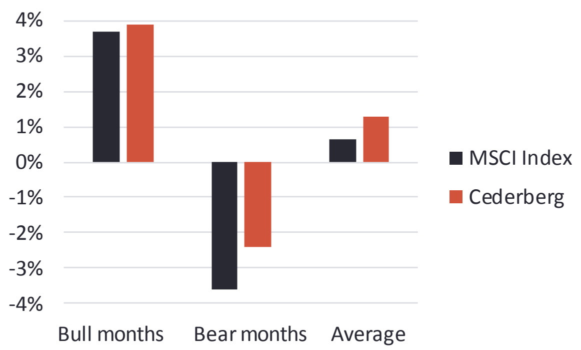
Top 10 Holdings in Alphabetical Order[4]

Stock	Industry
Baidu	Online search
China Biologic Products	Blood plasma producer
Clear Media	Outdoor advertising
Gree Electric	Home appliances
Kweichow Moutai	Distillers
NetEase	Online games
Noah	Asset management
Nu Skin	Personal care
Value Partners	Asset management
Wuliangye Yibin	Distillers

Key Characteristics[5]

Price/Earnings Ratio (2016)	13.2x	Fund Assets	$113m
Price/Book Ratio	3.8x	Total Assets	$152m
Dividend Yield	3.2%	Number of Holdings	19
Return on Equity	23.3%	Top 10 Holdings	66%
Net Cash to Market Cap	11%	Upside Capture[6]	105%
Median Market Cap	$2.3bn	Downside Capture[6]	67%

Upside Capture vs. Downside Protection



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
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Looking back

The behaviour of Greater Chinese equity markets in 2015 can be summed up in a word: volatility. We have written about this topic recently, but given markets' rocky start to 2016, some of it is worth repeating. Though Chinese equities gained 13% p.a. (all returns in US dollar) over the past 15 years vs. 5% p.a. for the S&P500, it suffered intra-year declines of 20% or more in 13 out of those 15 years. The asset class, and indeed our strategy, is therefore only suitable for those who can withstand volatility and who can invest based on a long term view (five years or more).

During Q4, the Cederberg Greater China fund gained 12% vs. 4% for the MSCI Golden Dragon index. It ended the year +6%, beating the index (-7%) and most other equity markets. Since inception, the fund has compounded at 14% p.a. vs. 7% for the index, placing it in the top 5% of its Bloomberg peer group.

Positive contributors to returns include **Kweichow Moutai**, which gained 23% as China's leading *baijiu* (white spirits) brand continues to take market share. While its top and bottom line grew modestly during the year, a strong increase in prepayments from distributors implies buoyant underlying demand, which bodes well for 2016. Positioning in **Value Partners**, the asset manager, added to returns as we sensibly took profits following the sharp April rally only to add to our position during the Q3 slump (from peak to trough its share price fell 70%). **NetEase**, the online games company, gained 85% on the back of earnings growth of close to 50% as its mobile games continue to top the charts.

Detractors include **Luk Fook**, the Hong Kong jeweler, which lost 28% in the first seven months of the year before we sold our final stake (it subsequently fell 22%). Hong Kong retailers have been buffeted by high rents and declining visitor numbers from Mainland shoppers who increasingly look for bargains in places like Korea and Japan. Despite the company's apparent low valuation, its outlook remains bleak; we invested the proceeds into more attractive ideas. **Emperor Entertainment**, the Macau casino, declined 20% as the sluggish Chinese economy and the government's anti-corruption campaign continue to impact the industry. It is trading at 5x earnings and on a 7% dividend yield, with net cash equal to its market cap, meaning investors get the company's two hotels and its lucrative gaming operations for free.

During the year, the fund sold six positions and initiated six new positions. This level of turnover is slightly higher than anticipated, and is largely due to last year's significant market volatility which allowed us to buy some names we've desired for a long time.

Another year, another crisis?

Following a tough start to the year, many commentators are decidedly bearish on the outlook for equity markets, including those of Greater China, in 2016. We have no expertise in forecasting near term returns, though with sentiment, valuations and fund flows in Greater China at rock bottom levels, we wouldn't be surprised if the year turns out to be better than expected.

On a longer term view, we find the following encouraging:

1. **Attractive valuations:** though small- and midcap A-shares remain expensive, there is plenty of value in US- and Hong Kong-listed Chinese companies. In fact, the H-share index is on a P/E of 6.4x, P/B of 0.9x, and yield of 4.7% (equivalent metrics for the S&P500 are 2-3x dearer).
2. **Structural growth off a low base:** even though growth is moderating, China will likely be the fastest growing major economy over the next decade, driven by reforms, urbanisation and consumption.
3. **Better governance:** this is happening at both the state and the corporate level, where capital allocation is becoming more and more rational.
4. **Indices understate the country's significance:** the below table is likely to change dramatically over the next decade.

	United States	China
% of World GDP	23%	13%
% of World GDP (Purchasing Power Parity)	16%	17%
% of World Population	4%	19%
% of World Patent Applications in 2013	21%	31%
% of MSCI AC World Index	**53%**	**2%**

Source: IMF, UN, WIPO, MSCI

Even without these potential tailwinds, we are excited about the outlook for our portfolio of high quality leaders trading at a mere 13x this year's earnings despite their strong growth potential, net cash balance sheets and stellar profitability (24% ROIC).

It's not a sprint

As an avid runner, I finally broke three hours for the marathon last year. While it took longer than it should have, I learned some valuable lessons about both running and investing along the way. Indeed, the process of preparing for and participating in endurance events can be instructive for both fund managers and their clients.

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Lesson 1: Have a sound plan

As Benjamin Franklin said: "If you fail to plan, you are planning to fail". To achieve one's running goals you need a training program designed by someone who knows what they're doing. The investing equivalent would be a sound investment strategy or philosophy. The strategy needs to be appropriate to the opportunity you are aiming to exploit. Moreover, it needs to be well-suited to your temperament and your skills set. At Cederberg, we have a clearly defined strategy which focuses on identifying high quality businesses, getting to know them inside-out, and buying them only when the share price offers us a significant margin of safety. It has worked in the past and we believe it will work in the future.

Lesson 2: Execute the plan with vigour

What's the point of having a great plan if you can't stick with it? In running, if you aren't prepared to train come rain or shine, you won't achieve your goals. Likewise, a key determinant of our investment success is good old fashioned hard work: reading the last decade's financial reports, conducting due diligence in obscure locations, and speaking with dozens of customers, competitors, former employees and other industry experts. Though certainly not glamorous, it can be extremely rewarding because of the unique insights that can be gleaned this way. In our experience, surprisingly few fund managers opt for this route. As the saying goes: "There are no traffic jams on the extra mile".

Lesson 3: Run your own race

One of the major reasons why long distance runners don't achieve their goals is because they get swept up by the crowd's exuberance leading them to start the race too quickly only to fizzle out in the second half. Likewise, in investing it is critical to remain unswayed by the crowd. In fact, many great investors like Ben Graham and Warren Buffett believe the behavioural side of investing is harder to master than the intellectual challenges it poses (we agree). Indeed, investors in Greater Chinese equities need to have ice in their veins, as Mr. Market is a particularly moody fellow in this part of the world.

Lesson 4: Success depends on how you deal with adversity

The longer the race, the more likely that things won't go to plan: one can fall, miss a drinks station, experience adverse weather conditions, or hit the proverbial wall. Long term investors face a similar situation: stock picks will fail, clients can lose their patience, sentiment can turn on a dime, and a bear market can hit at any time. How you prepare for and respond to challenges will ultimately determine your success, both as an athlete and as an investor. Having invested in China since 2005, I have had my fair share of mistakes. But learning from these has made me a better investor, ready to face future challenges.

Lesson 5: The journey is the destination

If you don't enjoy running, you are unlikely to achieve your goals. This is also true for investing, though unlike running there is no finish line in investing, which means passion becomes even more critical. We are incredibly fortunate to be able to do what we love. Our daily goals are to produce great research on high quality companies in an ethical manner, and to wait patiently for the market to offer us a bargain. If we do this over and over and over again, we should be well placed to achieve our long term goals: to earn our clients' trust, and to grow their wealth handsomely.

Corporate update

In October, Charles Wang left the firm; we wish him much success in his future endeavours.

Following a six month internship, Da Wei Zhang joined us as an analyst. Da Wei has 7 years' experience with JPMorgan, Tibra, UniCredit and Maven. He has a Masters in Finance from London Business School, where he studied Value Investing under Eddie Ramsden, and a B.Sc.Econ. (first class with honours) from the London School of Economics. Da Wei is fluent in Mandarin and is a CFA charterholder. Born in Beijing, he is based in London.

Alwina Wang also joined us as an analyst after her internship. She has over 10 years' experience having worked in investments at Ping An Trust and Haitong Securities, and in private equity consulting and auditing at PwC, KPMG and Deloitte. She has a Masters in Finance from LBS, where she too participated in the Value Investing program, and a B.Com. from Fudan University. Alwina is fluent in Mandarin and is a Chinese CPA and a CFA charterholder. Born in Chongqing, she is based in Shanghai.

In London, our bold move from the ground floor of 26 Throgmorton Street to the fifth floor went without a hitch (as Buffett would say: "The Cokes didn't even get warm"). Our new 504 square feet office feels positively palatial compared with our previous humble dwelling. In China, we have moved from Shenzhen to 116 Shimen Road No. 1, Shanghai for business and personnel reasons. Please stop by for a coffee, Rooibos or green tea when in either city.

Final Thoughts

I would like to express my thanks for the long term support of our investors, and my ongoing gratitude that I am surrounded at Cederberg by such wonderful colleagues: Alwina, Borch, Charl, Daniel, Da Wei and Tenielle.

Warm regards,

David 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 13 January 2016. 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.
As an illustration: During months in which the index was up, it returned +3.70% on average vs. Cederberg +3.89%; During months in which the index was down, it returned -3.59% on average vs. Cederberg -2.39%. Source: Bloomberg, Charter Group, Cederberg, 31 December 2015

[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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