

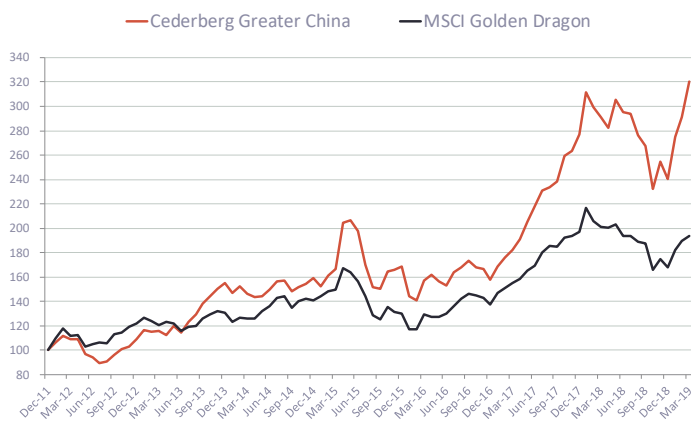
# CEDERBERG CAPITAL

## Cederberg Greater China Equities 31 March 2019

### An introduction to Cederberg

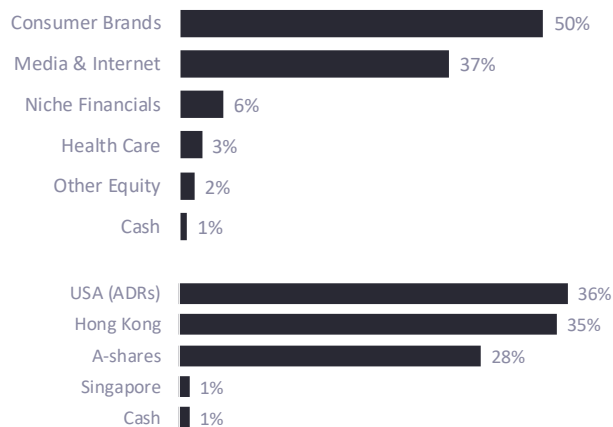
- Greater China specialists founded in 2011, majority staff-owned
- Mission: Run client money like we run our own
- Unique perspective from team in London & Shanghai
- Research-driven process focused on the region's best companies
- In every investment, we look for a durable Moat, excellent Management,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

### Performance chart<sup>1</sup>

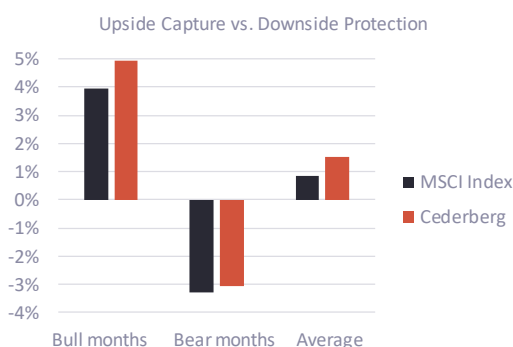


For Class A shares. All figures in US\$ net of fees. MSCI Golden Dragon Index includes net dividends. Past performance is not indicative of future results - please see regulatory information on p3. Source: Bloomberg, Charter Group. 31 March 2019

### Portfolio positioning<sup>2</sup>



### Risk<sup>3</sup>



### Why Cederberg might not be right for you

- 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: declines of 70% are not uncommon
- Cederberg's returns have been more volatile than those of the index
- We manage a concentrated portfolio that typically differs substantially from those of our peers and from the market
- Our past returns are unlikely to be repeated in the long run
- Our strategy is only suitable for clients who invest for at least 10 years

### Performance table<sup>1</sup>

Net Returns in US\$	Class A	Index	Peer group	Percentile
<i>Annualised</i>				
Since inception (1/1/2012)	17%	10%	8%	100
5 years	17%	9%	7%	99
3 years	27%	15%	9%	100
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	33%	16%	22%	83
3 months	33%	16%	22%	83
1 month	10%	2%	4%	94

### Major holdings<sup>2</sup>

Alibaba	Ecommerce	Noah	Asset management
JD.com	Ecommerce	Tencent	Social network
Jiangsu Yanghe	Distillers	Wuliangye	Distillers
Kweichow Moutai	Distillers	Yihai	Condiments
Midea Group	Home appliances	YY	Live streaming

### Median portfolio characteristics<sup>4</sup>

P/E (2019e)	21x	ROE	20%
EV/EBIT (2019e)	15x	ROIC	13%
EPS growth (2019e)	21%	Market cap	US\$32bn
Net cash to equity	45%	Number of holdings	16
Dividend yield	2%	Top 10 holdings	85%

### Key features<sup>5</sup>

Strategy	Long-only equity	Auditor	PwC
Domiciles	Cayman, Delaware	Custodian	Standard Chartered
Fund assets	US\$472mn	Administrator	Charter Group
Firm assets	US\$1.1bn	Cayman counsel	Maples & Calder
Peer group	Greater China Equity	US & UK counsel	Schulte Roth & Zabel
Benchmark	MSCI Golden Dragon	NAV - Class A	320.17
Expenses	14 bps (2018)	NAV - Class B	108.45
Turnover	14% (2018)	NAV - Class C	109.82
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### Responsible Investment - Beyond box-ticking

Investors with a conscience face an alphabet soup of acronyms: ESG, SRI, CSR\*... the list goes on. At Cederberg, we have found that Responsible Investment resonates with our long-term, business owner mindset. According to the UN's Principles for Responsible Investment, it *"is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns."*

So what, you ask? Surely our job is to make money for our clients, not to make moral judgments on what might be good or bad for the environment or for society? We respectfully disagree: making money for our clients is paramount, that is *why* we are considering ESG, as it can have a material impact on long-term business performance (please see [here](#) and [here](#)), especially in Emerging Markets such as China. Furthermore, many of our clients want us to be thinking about it. Lastly, for our peace of mind, we want to be able to look our loved ones in the eyes knowing that we are invested in companies that do not exploit customers, employees, society or the environment in an egregious way (though we recognise that no-one is without sin!).

When it comes to ESG, we take the perspective of a long-term business owner, rather than relying on a set of rules, which can sometimes lead to questionable decisions. Take Berkshire Hathaway as an example: run by the highly ethical Warren Buffett, it is a business we would be happy to own if it were in our universe, yet ESG box-tickers would raise several concerns:

- The board includes three nonagenarians.
- Directors' average tenure is 19 years (advisory firm ISS recommends a 12 year limit for independent directors).
- Buffett's son Howard is a director.
- It has had the same auditor for the past 34 years (the EU requires a mandatory change at least every 20 years).

Similarly, it is not hard to envisage an ESG rule-abiding investor not willing to invest with us because of our exposure to Chinese spirits companies. But potential concerns around wide-scale alcohol abuse could be ill-conceived: **Moutai** and **Wuliangye's** core products sell for \$300 and \$150 respectively. At the same time, many ESG-abiding investors are happy to invest in breweries, arguably a much more problematic industry in China given the price of beer is sometimes below that of bottled water.

Since our focus is on investing in durable, well-run companies for the very long run, we look for companies that are typically well-aligned with ESG considerations:

- Most of our investments are in consumer branded goods and internet companies.
- We tend to avoid carbon-intensive sectors such as energy, metals and mining.

- Greater Chinese tobacco, defence and casino companies don't meet our quality criteria.
- We aim to avoid companies that mistreat their staff or the environment (it is usually unsustainable).
- Our focus on founder-led companies with strong cultures often lead us to businesses with sustainable practices.

In addition to implementing a proxy voting program, we also frequently engage with management teams in constructive dialogue. Not only does this lead us to understand their businesses better, but it can also help to improve their governance (we would rather work with management to bring about change than divest when we disagree with them, though we would do so if engagement proves unsuccessful). Some examples include:

- Pressing a cashed-up outdoor advertising company to implement a dividend policy.
- Challenging a hotel and leisure company to combat prostitution on their premises.
- Sharing and discussing Will Thorndike's book on capital allocation, *The Outsiders*, with management teams.
- Introducing a Chinese education company looking for English-speaking teachers to a South African university.
- Sharing the disclosure of its best-in-class global peers with a wealth management company.
- Presenting our industry research to a blood plasma company's management team after its CEO asked us to do so.
- Connecting several companies with investors that we believed would make for engaged, long-term shareholders.

Ultimately, Cederberg is a rare long-term owner of Chinese equities - our average holding period is seven years (based on last year's turnover) vs. less than six months for the market average. If we won't be holding companies responsible for their actions, who will? For this, and for the reasons mentioned before, we believe it is important for us to be Responsible Investors. As long as we don't have to tick any boxes!

### Fund update

We are delighted that YanYan Li will be joining the fund's board shortly. YanYan brings with her over 25 years of legal and compliance experience, most of it obtained with top tier firms in Hong Kong, including as general counsel and COO of a large investment group. Currently, she sits on the board of a Hong Kong-listed consumer company, acts as a legal consultant to a leading investment manager, and is involved with several foundations and charities. A keen paddler, she has represented both Hong Kong and Canada in dragon boating. Welcome YanYan!

Warm regards,

*David Krige*

\* Environmental, Social and Governance; Socially Responsible Investing; Corporate Social Responsibility

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### Regulatory information and risk warning

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### Disclosure

<sup>1</sup> 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.

<sup>2</sup> Category definitions as per Cederberg. Source: Bloomberg, Cederberg

<sup>3</sup> 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

<sup>4</sup> Median portfolio characteristics are quoted as of 4 April 2019. Source: Bloomberg, Cederberg.

<sup>5</sup> Data as of 31 March 2019. Expenses include all fund level expenses excluding investment management fees divided by the fund’s average AUM in 2018. Portfolio turnover is for 2018 and 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 (closed for new subscriptions)	Class B	Class C	Delaware LP - Class B	Delaware LP - Class C
<b>Inception date</b>	1 Jan 2012	1 Jul 2018	1 Jul 2018	1 Aug 2018	1 Aug 2018
<b>Status</b>	Closed	Open	Open	Open	Open
<b>Min initial investment</b>	US\$100k	US\$100k	US\$100k	US\$1mn	US\$1mn
<b>Subscription</b>	Monthly	Monthly	Monthly	Monthly	Monthly
<b>Redemption notice</b>	30 days	90 days	90 days	180 days	180 days
<b>Redemption fee (payable to the Fund)</b>	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
<b>Management fee</b>	1.50% p.a.	1.25% p.a.	0%	1.25% p.a.	0%
<b>Performance fee</b>	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
<b>High water mark</b>	Yes	Yes	Yes	Yes	Yes
<b>Investor level gates (max redemption per investor)</b>	N/A	25% per quarter	25% per quarter	N/A	N/A
<b>ISIN</b>	KYG2030A1004	KYG2030A1186	KYG2030A1269	N/A	N/A
<b>Sedol</b>	BMM1R81	BFZYW5	BD31D23	N/A	N/A