

CEDERBERG CAPITAL

Cederberg Greater China Equities 31 October 2019

An introduction to Cederberg

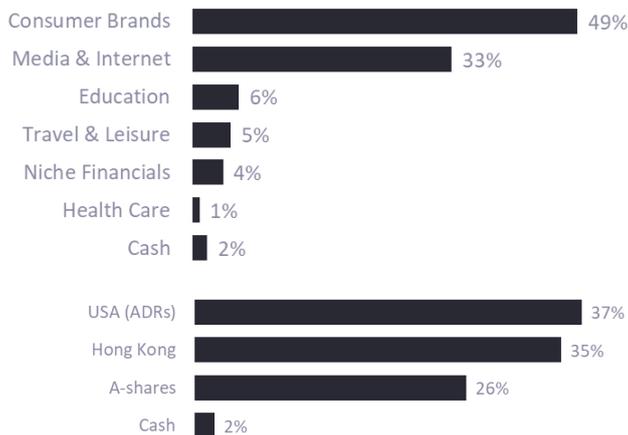
- Greater China specialists founded in 2011, majority staff-owned
- Mission: Run client money like we run our own
- Unique perspective from team in London & Shanghai
- Research-driven process focused on the region's best companies
- In every investment, we look for a durable Moat, excellent Management,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

Performance chart¹

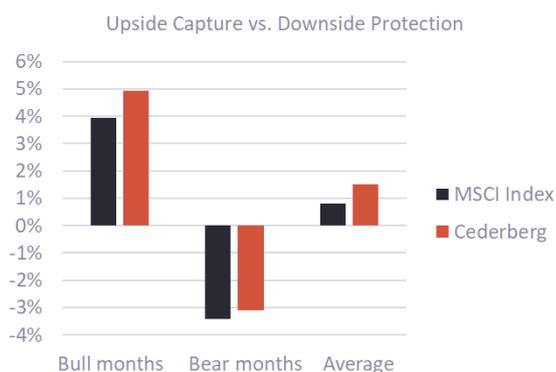


For Class A shares. All figures in US\$ net of fees. MSCI Golden Dragon Index includes net dividends. Past performance is not indicative of future results - please see regulatory information on p3. Source: Bloomberg, Charter Group. 31 Oct 2019

Portfolio positioning²



Risk³



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
- Our returns have been more volatile than those of the index
- We run a concentrated portfolio and we don't look like the index or 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)	17%	9%	7%	100
5 years	18%	6%	5%	99
3 years	27%	10%	7%	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	43%	14%	21%	91
3 months	6%	1%	1%	80
1 month	6%	5%	4%	88

Major holdings²

Alibaba	Ecommerce	Netease	Online gaming
Haidilao	Restaurants	New Oriental	Education
Huazhu Group	Hotels	Tencent	Social network
JD.com	Ecommerce	Wuliangye	Distillers
Kweichow Moutai	Distillers	Yihai	Condiments

Median portfolio characteristics⁴

P/E (2020e)	24x	ROE	22%
EV/EBIT (2020e)	19x	ROIC	15%
EPS growth (2020e)	22%	Market cap	US\$24bn
Net cash to equity	52%	Number of holdings	16
Dividend yield	1%	Top 10 holdings	85%

Key features⁵

Strategy	Long-only equity	Auditor	PwC
Domiciles	Cayman, Delaware	Custodian	Standard Chartered
Fund assets	US\$866mn	Administrator	Charter Group
Firm assets	US\$1.9bn	Cayman counsel	Maples & Calder
Peer group	Greater China Equity	US & UK counsel	Schulte Roth & Zabel
Benchmark	MSCI Golden Dragon	NAV - Class A	343.19
Expenses	14 bps (2018)	NAV - Class B	116.26
Turnover	14% (2018)	NAV - Class C	119.00
Email	ir@cederbergcap.com	Phone	+44 203 745 1701

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BUSINESS UPDATE

To improve our odds of generating attractive long-term outcomes for our clients, we will close to new investors on Dec 31st 2019. Please contact christina@cederbergcap.com should you wish to discuss.

CULTURE AS A COMPETITIVE ADVANTAGE

"Culture is what people do when no one is looking." – Herb Kelleher, Southwest Airlines founder

"Our attitude at Costco is that culture is not the most important thing in a company, it's the only thing. It dictates every action that you take. We feel we have to work continuously not to lose our culture. The way our employees describe it is 'do the right thing'." - Jim Sinegal, Costco CEO

"All I want to do is to inspire my kids and every other kid in South Africa." - Siya Kolisi, Springbok captain

Culture can be a crucial driver of the long-term success of an organisation, whether it is a sports team, a military unit, a church or a business. What makes for a great culture has been the focus of many books*. Yet it typically receives no mention in the investment analyses that we come across. Why is that?

It seems many investors ignore corporate culture for a myriad reasons: because it is subjective, it can be ephemeral, assessing it usually involves going beyond the usual sources of information, or it just doesn't matter given their short investment horizons. Yet in our experience, it can be one of the most potent and enduring sources of competitive advantage ("**moat**"), especially for businesses with low entry-barriers such as restaurants, hotels and retailers. It is also not that difficult to assess.

"Winning" cultures come in different shapes and sizes. However, they seem to have two things in common. Firstly, a **purpose** that transcends that of the individual, e.g. "ready to answer our Nation's call" (Navy Seals), "it's not pressure, it's a privilege" (Springboks), and "to be the Earth's most customer-centric company" (Amazon). Secondly, a strong **sense of community**, where individuals feel they are part of a family with shared values.

These two concepts get reinforced through traditions and rituals, whether it is by employees singing a song together (a daily occurrence at some Chinese companies!), in the way new joiners get welcomed, or by regular celebrations and ceremonies. Physical objects such as artefacts (Jeff Bezos' "door desk" comes to mind), dress-codes, space layouts, and - in some extreme cases - tattoos can also remind individuals of their purpose and of the community to which they belong.

One can get a feel for a company's culture from site visits and via interviews with its leaders. We've found speaking with employees and ex-employees to be even more useful. What is not particularly useful, however, is assessing a company's culture by its vision, its mission statement or its values – recall Enron's motto was "Respect, Integrity, Communication and Excellence"!

Our holdings each have their own unique cultures. **Alibaba**, obsessed with helping its clients, asks recruits to perform a handstand as a reminder to seek fresh perspectives when solving their problems. **Midea** has a "survival of the fittest" culture, with ambitious, well-considered KPIs for everyone; despite it leading to relatively high staff turnover, former employees continue to admire the company. At **Yihai** and **Haidilao**, employees are treated like family and then expected to treat customers the same way; innovative incentives and rigorous training ensure that nothing is left to chance. **Tencent** fosters a culture of internal competition to bring out the best in its people, e.g. QQ views WeChat as its biggest social network competitor and vice versa.

What about Cederberg's culture? We seek to create a **team environment that encourages diversity of opinions and continual learning, where excellent people are empowered to make a massive difference to our clients by being genuinely long-term focused**. We don't have a company song (thankfully!), but if we did, it would include the following: run client money like we run our own, process over outcomes, keep it simple, eyes on the horizon, what's best for clients will be best for us, go the extra mile, be an owner. While culture is a high priority for us, we have more work to do. Just like the companies we invest in, our culture needs to guide and inspire our people if we stand any chance of being successful in the long run. Onwards!

Warm regards,

David Krige

Additional commentary by Cederberg team members Adeline Chong, Daniel Ng and Da Wei Zhang.

** Some of the books on culture that we've enjoyed:*

- *Creativity, Inc. – Ed Catmull*
- *Drive – Daniel Pink*
- *Extreme Ownership – Jocko Willink and Leif Babin*
- *It's Your Ship – Michael Abrashoff*
- *Let My People Go Surfing – Yvon Chouinard*
- *The Culture Code – Daniel Coyle*
- *The Psychology of Military Incompetence – Norman Dixon*
- *Trillion Dollar Coach – Eric Schmidt, Jonathan Rosenberg and Alan Eagle*
- *Books and articles on companies with great cultures such as Amazon, Costco, Walmart, Alibaba and Haidilao*
- *Eleven Rings, Legacy, The Carolina Way and other books on highly successful sports teams*

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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 31 October 2019. Source: Bloomberg, Cederberg.

⁵ Data as of 31 October 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
Inception date	1 Jan 2012	1 Jul 2018	1 Jul 2018	1 Aug 2018	1 Aug 2018
Status	Hard closed	Soft close 31 Dec 2019	Soft close 31 Dec 2019	Soft close 31 Dec 2019	Soft close 31 Dec 2019
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