

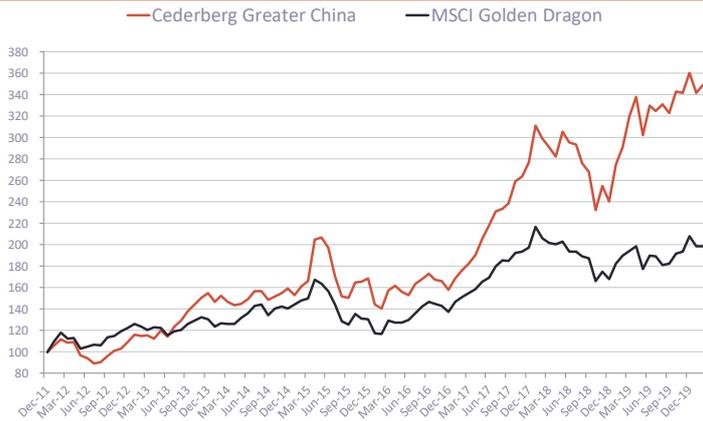
CEDERBERG CAPITAL

Cederberg Greater China Equities 29 February 2020

An introduction to Cederberg

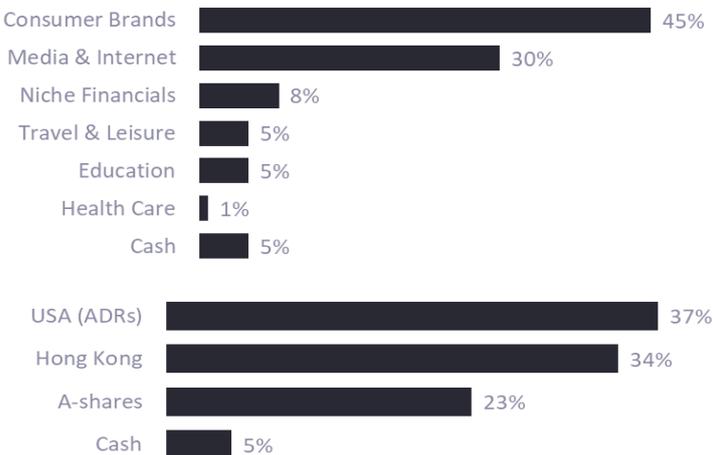
- Greater China specialists founded in 2011, majority staff-owned
- Mission: Run client money like we run our own
- Unique perspective from team in London & Shanghai
- Research-driven process focused on the region's best companies
- In every investment, we look for a durable Moat, excellent Management,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

Performance chart¹



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. 29 Feb 2020

Portfolio positioning²



Risk³

Upside Capture vs. Downside Protection



Why Cederberg is not for everyone

- 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
Since inception (1/1/2012)	17%	9%	8%	100
5 years	17%	7%	5%	99
3 years	26%	9%	9%	99
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

Not annualised

Year to date	-3%	-5%	-2%	43
3 months	2%	2%	5%	28
1 month	2%	0%	1%	64

Major holdings²

Alibaba	Ecommerce	NetEase	Online gaming
Haidilao	Restaurants	New Oriental	Education
Huazhu Group	Hotels	Tencent	Social network
Kweichow Moutai	Distillers	Wuliangye	Distillers
LexinFintech	Consumer finance	Yihai	Condiments

Median portfolio characteristics⁴

P/E (2020e)	23x	ROE	25%
EV/EBIT (2020e)	16x	ROIC	17%
EPS growth (2020e)	16%	Market cap	US\$20bn
Net cash to equity	46%	Number of holdings	16
Dividend yield	1%	Top 10 holdings	83%

Key features⁵

Strategy	Long-only equity	Auditor	PwC
Domiciles	Cayman, Delaware	Custodian	Standard Chartered
Fund assets	US\$992mn	Administrator	Charter Group
Firm assets	US\$2bn	Cayman counsel	Maples & Calder
Peer group	Greater China Equity	US & UK counsel	Schulte Roth & Zabel
Benchmark	MSCI Golden Dragon	NAV - Class A	348.97
Expenses	14 bps (2018)	NAV - Class B	118.41
Turnover	15% (2019)	NAV - Class C	121.27
Email	ir@cederbergcap.com	Phone	+44 203 745 1701

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QUARANTINE! A DAY IN THE LIFE

Markets are full of fear due to COVID-19, the falling oil price and global growth concerns. Our advice to investors? Keep your eyes on the horizon. In a year or two from now, these events won't matter much. If you own a portfolio of strong, growing companies at reasonable prices, the best is yet to come. Or to quote Bachman-Turner Overdrive: "You ain't seen nothing yet."

Our thinking about COVID-19 remains as follows:

1. China has done an outstanding job containing the virus; business activity has yet to fully recover, but domestic demand will bounce back rapidly, aided by supportive government policies.
2. The earnings of some of our holdings will be significantly impacted in the interim (please see last month's letter), but long-term intrinsic values will be virtually unaffected; we have cash to deploy should opportunities appear.
3. While most countries won't be able to contain the virus as effectively as China has, slowing its spread will buy everyone time; it is unlikely to be detrimental to almost all countries, businesses or individuals in the long-run.

Our colleague Daniel Ng recently returned to Shanghai and has now spent over a week in self-isolation at home. In this letter, he shares some snippets to provide a perspective on the increased usage of some of our holdings' products and services, and on how China has been able to contain the virus so effectively.

*"First thing, I look for a delivery slot on Hema, **Alibaba's** grocery supermarket. These have become quite scarce since the outbreak, and high demand often causes the site to crash. Until recently, only 7% of groceries in China were sold via ecommerce. The crisis is likely to lead to lasting changes in consumer behaviour. Alibaba believes it can build a grocery business as big as its core ecommerce properties Taobao and Tmall combined.*



A deluge of deliveries at my apartment complex. Source: Cederberg Capital.

*It is mandatory for returnees to report to the front desk twice a day, where the resident's committee check whether I have a fever. I also have to join other local returnees in a chat group on WeChat, **Tencent's** social network where we share our temperatures as well as words of encouragement. Privacy about one's health is of secondary concern these days!*

Lunchtime.... What shall I order? Alibaba's Ele.me, as well as its competitor Meituan, continue to deliver meals, even though many consumers are concerned that food might get contaminated in the preparation or delivery process. Orders are a bit slower these days (30-45mins) as many couriers have yet to return to work and as many restaurants remain shut.

Every few days, someone from the resident's committee will pay me an unannounced visit, ostensibly to sell me facemasks but, in reality, just an excuse to monitor us returnees. When I answer the door, I am offered a 5-mask pack for RMB4, but only if I pay with Alipay/WeChat!



House visit. Source: Cederberg Capital.

The government has been working closely with Alibaba and Tencent to collect data in their efforts to prevent the virus from spreading. Many provinces have mandated that its residents present their individual QR codes at almost every transaction. One cannot enter the subway or an office block without a green QR code. My QR code will change from green to yellow or red if a person on my flight/train/taxi, or in my immediate vicinity, has subsequently been diagnosed with the virus. This way, the government can proactively identify and isolate high-risk individuals.



My health QR code on Alipay – green is good! Source Cederberg Capital.

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With a newly installed home office, it is business as usual. Zoom has helped us stay in touch with each other, whether we are in the office or working from home, both in London and in Shanghai.



Video call between London and the quarantined analyst. Source: Cederberg Capital.

At the time of writing, much of China is still in lockdown. Most factories, shops and schools are either closed or operating far below normal capacity, which takes its toll on the economy and the people. Three close friends shared their stories with me:

- 1. Suzhou high school teacher Lisa has to stay at home until at least mid-March. Her salary has been reduced from RMB6,700 (\$960) per month to RMB3,630 (\$520).*
- 2. Chengdu small-business owner Vivian has been forced to shut her bakery for over a month; she continues to pay rent, interest and the minimum legal wage of RMB1,800 (\$260) per month to each of her three staff.*
- 3. Shanghai husband and wife Michael and Zhuang have not been able to reopen their three Montessori nurseries, a national policy. As a result, many parents are forced to stay at home to care for their children.*

Despite the heavy price, the Chinese people remain unified, optimistic and confident in the government. Policies are already being rolled out to support businesses and consumers. I remain in good health while I look forward to normal life here in Shanghai."

China's response provides a blueprint of how the virus can be beaten if the government, businesses and the community work hand-in-hand. Daniel's account also highlights the healthy relationship between the Chinese government and its internet behemoths Alibaba and Tencent, two core Cederberg holdings.

CORPORATE UPDATE

We are pleased to announce that Luke Hong has joined us as an investment analyst. Luke hugely impressed us during his internship two years ago, which he did while studying Value Investing under Eddie Ramsden at London Business School – but we couldn't afford him on a fulltime basis at the time! Since then, he has been an analyst with Bernstein focused on the China auto industry; he was previously a senior consultant with KPMG in Hong Kong. In addition to a Masters in Finance from LBS, he has a busi-

ness degree from City University of Hong Kong, where he was vice-captain of the tennis team. Luke has passed all four modules of the Hong Kong CPA exam and is a CFA charter holder. He will be spending the next few months with us in London before moving back to Shanghai, just up the road from his hometown Hangzhou. Welcome Luke!

I also wanted to share with you that Daniel has made the decision to retire from investment management later this year to dedicate his life to philanthropy and missionary work. With Luke and Dan Tan headed for Shanghai, Daniel will stay with us until the fourth quarter to ensure a smooth transition.

We are thrilled for Daniel on this new chapter in his life, but also sad that he'll be leaving us. He has played an instrumental role in raising Cederberg's standards over the past seven years, whether in researching companies, developing our systems or in mentoring new joiners. His integrity, passion and willingness to go the extra mile have been inspirational. But Cederberg's loss is humanity's gain. An excerpt from Warren Buffett's letter to Nick Sleep when he and his partner chose a similar path is pertinent: "You and Zak have made the right choice. I predict you will find life is just beginning."

On a practical note, it is business as usual for Cederberg: Adeline has taken over Daniel's coverage of our holdings **Alibaba** and **NetEase**, and Joe took ownership of all things IT when he joined us a year ago. With Adeline, Da Wei and Dan all developing into formidable investors - and with Luke's skills and experience complementing theirs - our investment team is as strong as it has ever been. We are also currently speaking with several excellent candidates who are keen to join our team in Shanghai.

On a personal note, Daniel remains a cherished friend and highly supportive of our business. In his own words:

"I continue to invest a significant portion of my personal savings into the Cederberg fund, as I am a strong believer that the team's diligent research, coupled with a long-term concentrated investment strategy, will continue to generate outsized returns. To that end, I have doubled my investment recently and intend to remain invested well after I retire from fund management."

We will be giving him a proper send-off closer to the time, but in the meanwhile, on behalf of the Cederberg team and myself: thank you Daniel, for everything you have done for us!

CONCLUSION

Please don't hesitate to contact us should you wish to discuss anything. We welcome all feedback, questions and ideas.

Warm regards,

David Krige

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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 9 March 2020. Source: Bloomberg, Cederberg.

⁵ Data as of 29 Feb 2020. Expenses include all fund level expenses excluding investment management fees divided by the fund’s average AUM in 2019. Portfolio turnover 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	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	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